mensch maschine

CAD as CAD can

Annual Report 2006

Mensch und Maschine at a glance

All amounts in million EUR (unless stated otherwise)	2001		2002		2003		2004		2005*		2006	
Revenue	146.8		143.1	-2.5%	131.0	-8.5%	135.5	+3.4%	147.2	+8.7%	170.34	+16%
Germany	56.6	39%	55.1	38%	48.1	37%	41.5	31%	39.8	27%	42.21	25%
International	90.2	61%	88.1	62%	82.9	63%	94.0	69%	107.4	73%	128.12	75%
Revenue per share in EUR	16.54		14.19	-14%	12.80	-10%	12.35	-4%	12.21	-1%	13.51	+11%
Gross Margin	40.0		47.2	+18%	42.5	-10%	42.6	+0.4%	42.2	-0.9%	46.73	+11%
Trading products	31.6	79%	25.1	53%	21.3	50%	20.2	47%	23.1	55%	26.79	57%
M+M Technology + Services	8.5	21%	22.1	47%	21.2	50%	22.4	53%	19.1	45%	19.94	43%
Operating result EBIT	6.2		-9.2		-6.4		-1.2		7.6		7.25	
thereof operating	6.8		-1.3		-2.8		0.8		3.4	+325%	6.83	+102%
EBIT return from revenue	4.6%		-0.9%		-2.1%		0.6%		2.3%		4.0%	
non-recurring effects	-0.6		-7.9		-3.6		-2.0		4.2		0.42	
Net result	2.3		-14.3		-6.3		-9.2		0.54		3.20	
Net return from revenue	1.6%		-10.0%		-4.8%		-6.8%		0.4%		1.9%	
Net result per share in EUR	0.27		-1.42		-0.62		-0.85		0.04		0.24	
Dividend in EUR	0.18		0.00		0.00		0.00		0.10		0.15	
Total assets	89.2		83.2	-7%	80.1	-4%	69.1	-14%	61.4	-11%	71.8	+17%
Shareholders' equity	27.8		18.2	-34%	15.2	-16%	9.3	-39%	10.0	+8%	14.9	+49%
Equity ratio	31.1%		21.9%		19.0%		13.4%		16.3%		20.8%	
Number of shares in million	8.876		10.084	+14%	10.232	+1%	10.972	+7%	12.053	+10%	12.497	+4%
Number of employees	298		467	+57%	405	-13%	355	-12%	307	-14%	300	-2%
thereof M+M AG	88	29%	89	19%	89	22%	79	22%	72	23%	66	22%
International subsidiaries	136	46%	141	30%	120	30%	102	29%	95	31%	89	30%
Technology subsidiaries	74	25%	237	51%	196	48%	174	49%	140	46%	145	48%

* 2005 restated, see page 61 ff

Content

man machine
CAD as CAD can

Dear reader,
Mensch und Maschine Software SE (M+M) significantly accelerated its business during fiscal year 2006:

New company records were achieved, increasing sales by 16% to more than EUR 170 mln and doubling the operating result EBITA to EUR 6.8 mln.

M+M Technology and the trading segment made nearly equal contributions to operating earnings, underlining that the M+M business model is now well balanced over two supporting pillars.

Bottom line, net earnings amounted to EUR 3.2 mln, which was nearly all generated from the operating business.

All in all, M+M finally left the consolidation phase behind and has now fully returned to a profitable growth path. The significantly reduced cost base allows for economy of scale effects, which can create substantial profit margin improvements for the future.

Therefore, in the years 2007 and 2008, we intend to continue the annual sales growth around 15% while once more doubling the operating result and tripling net earnings.

M+M shareholders are benefiting from this development. The dividend payment, which is already raised from 10 to 15 Cents for 2006, shall be further increased by 5 Cents in each of the next two years if these targets are achieved.

Wessling, March 2007
The Managing Directors

2006 at a glance

- Revenue: EUR 170.3 mln / +16%
  - International share 75% (PY: 73%)
  - New historical company record
- Operating profit EBIT: EUR 7.3 mln (PY: 7.6*)
  - Strictly operating: 6.8 (PY: 3.4 / +100%)
  - Non-recurring effects: 0.4 (PY: 4.2*)
- Pretax earnings: EUR 5.1 mln (PY: 5.2*)
  - Strictly operating: 4.6 (PY: 1.0 / +370%)
- Net earnings: EUR 3.2 mln (PY: 0.5*)
  - Per share: EUR 0.24 (PY: 0.04*)
  - Return on equity ROE: 21.5%
- Dividend proposal: 15 Cents / +50%
- Group headcount: 300 (PY: 307)
- Conversion to ‘Europan SE’ and Holding structure completed

* Previous year restated, see page 61 ff.

Adi Drotleff
CEO

Michael Endres
Marketing

Jens Jansen
CIO

Peter Schützenberger
CFO

Werner Schwenkert
CTO

Management report 2006

Enterprise and market position

Mensch und Maschine Software SE (M+M) is one of the leading European providers of CAD/CAM solutions (Computer Aided Design & Manufacturing).

Well balanced business model

The M+M business model has a relatively broad base within the CAD/CAM market and is equally balanced in three respects:

1. Geographical markets
2. Customers and industry sectors
3. Product portfolio

The distribution over various geographical markets was mainly achieved in the years following the 1997 M+M IPO through a dynamic international expansion.

The good customer and industry sector balance however originated from the early business model, following M+M's foundation in 1984. The product portfolio, which until 1999 had been rather unilaterally focused on Value-Added Distribution of standard CAD software from US vendor Autodesk, was evened out around the turn of the millenium, mainly by a strong growth push in the business unit 'M+M Technologies and Services'.

1. Geographical markets

While in 1997 domestic German business was clearly dominant with international sales of only EUR 12.7 mln or 25% of group revenue, the following decade saw a tenfold increase of international business which in fiscal year 2006 amounted to EUR 128.1 mln or 75% of total group sales.

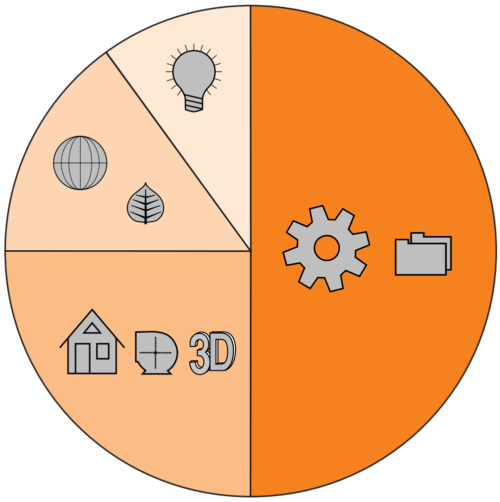
This development was driven by acquisitions in France, Italy, Poland (all 1998), UK, Sweden (2000) and Switzerland (2001) as well as by the foundation of a new subsidiary in Belgium (2002), which today gives M+M market access to 15 European countries. Additionally, there are sales offices in the USA, Japan and Singapore, exclusively marketing M+M Technology.

2. Customers and industry sectors

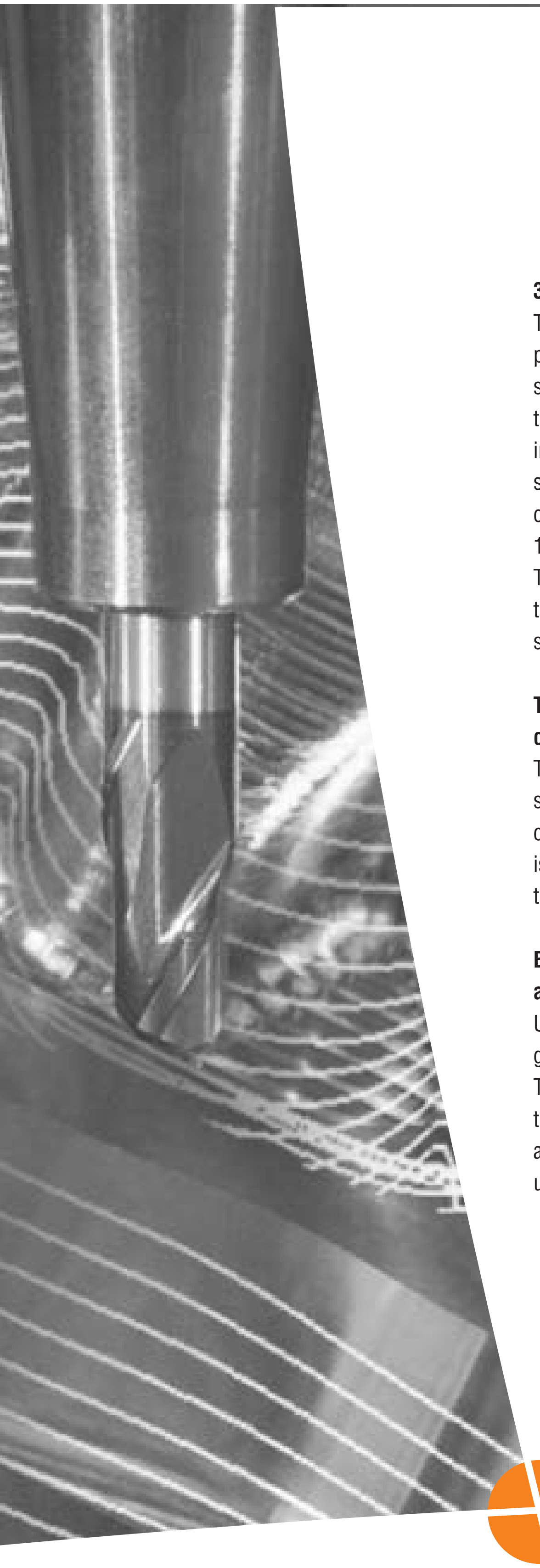
In this respect, the M+M business is split about half into mechanical engineering and half into the sectors of architecture and the construction industry with building services and visualization (approx. 25%), GIS - Geographic Information Systems / gardening and landscaping (approx. 15%) and electrical engineering (approx. 10%). This distribution is quite similar to the global CAD market, where about 50% of the total market volume is attributed to mechanical.

Customer and orderwise the distribution of business is even wider. M+M is selling software solutions for more than 50,000 CAD/CAM seats per year, mainly through a network of approximately 1,000 authorized resellers, none of whom is achieving more than 3.5% of group sales. Consequently there are no deep dependencies on the customer side from single purchasers.

Altogether, Mensch und Maschine has built up an installed base of over 500,000 CAD/CAM seats at more than 50,000 end customer sites of all size categories - from small engineer's or architect's offices up to international large-scale enterprises.



The M+M group's business divides into four industry segments: One half of the sales is achieved with mechanical engineering and PLM (Product Lifecycle Management) solutions. The other half consists of architecture / construction industry (approx. 25%) including building services and visualization, Geographic Information Systems (GIS) / gardening and landscaping (approx. 15%) and the electrical engineering segment contributing approx. 10% of sales.



3. Product portfolio

The M+M product portfolio covers a wide price/performance range from simple drawing software costing a few hundred Euros through midprice 2D/3D design solutions in the four-digit Euro range up to high end systems for manufacturing and production control with software investment costs from 10,000 to 100,000 Euros and more per seat. The majority of CAD sales is generated in the low to midprice range, while the CAM solutions are sold in the high end range.

Two thirds new business, one third recurring revenue

Two thirds of the business is new sales of software seats or subscription/maintenance contracts, the remaining third of the sales is recurring, such us subscription or maintenance renewals and software updates.

Balance between Software Development and Value-Added Distribution

Until 1999, only about 10% of the group gross margin was achieved with M+M Technologies and Services, while the trading business unit was clearly dominant and marked a relatively strong dependence upon main supplier Autodesk.

The M+M Technology gross margin share has grown significantly since and amounted to EUR 19.9 mln or 43% of group gross margin in fiscal year 2006. Thus the M+M business model is now balanced across the product portfolio between owned and trading products. This has been possible through a Technology Offensive, in the course of which several software developers, matching M+M's core business, had been acquired during 2001 and 2002. In most of these companies, M+M already had strategic minority shareholdings. In 2005, one of these companies, COMPASS GmbH, was sold to Autodesk through an asset deal.

PTC distribution discontinued in Q2/2006

The distribution of software from Autodesk competitor PTC, which had been started in 2003, was discontinued at April 1, 2006, with the capacity made available by this action being refocused on the growth and value drivers of Autodesk and M+M Software sales.

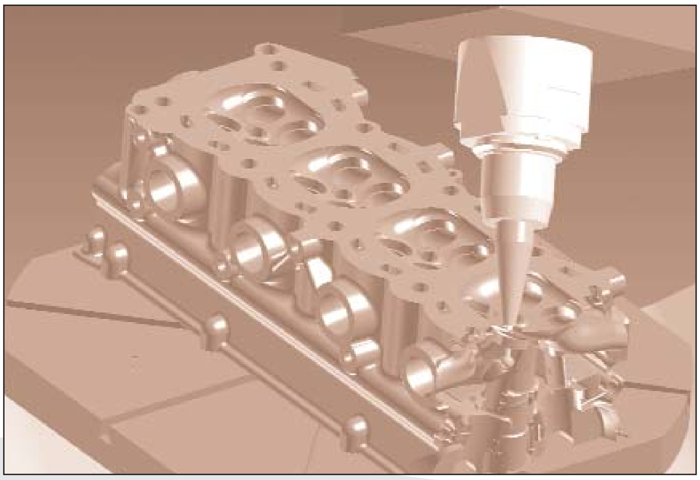
M+M Technology is differentiation potential

While the trading segment gives M+M broad market access and contributes over 85% of sales, the self-developed technologies are responsible for the differentiation potential and give the M+M group an individual market profile, clearly distinguishable from competition.

In the M+M Technology segment, M+M is a standard software developer with a gross margin yield of approx. 88% (compared to approx. 18% yield in the trade segment) and concentrates on sector and niche applications which are not covered by the large vendors like Autodesk, PTC or Dassault. The revenue in this segment is generated by the technology and service subsidiaries OPEN MIND, DATAflor, ECS, M+M Akademie and EUKLID and from the product brands RoCAD (sold to Autodesk in October 2006) and CAD*erschwinglich* (CAD affordable) developed at M+M headquarters.

The M+M product brands
The individual technology subsidiaries and M+M group product brands are introduced as follows in the order of their contribution to the value added.

Innovative CAM strategies enable high savings for the design cycle and machining time: Milling simulation using hyperMILL



OPEN MIND Technologies AG
Group member since Q1/2002 (100%)

OPEN MIND
THE CAM COMPANY

OPEN MIND specializes in CAM software solutions and contributed approximately two third to the gross margin in the M+M Technology segment, or approximately 28% to the group gross margin in 2006. CAM stands for Computer Aided Manufacturing. Software solutions from OPEN MIND are used for drilling and milling in various industries like mechanical engineering, tool, mold and die making, automotive and aerospace industry as well as consumer and jewellery manufacturing.

Particularly in the highly complex 5-axis milling process, the hyperMILL product line from OPEN MIND, has a technologically leading position and allows the customers quick payback of their high machine tool investments.

With the patented *cavity milling process*, a safe and practical 5-axis solution was developed in a frontrunning position for the the wide application area of tool, mold and die making. OPEN MIND offers a variety of innovative applications for specific products like tire molds, turbines and medical technology, in order to enable and simplify the programming of complex handling, as well as to lower handling time and improve finished quality.

A typical example is the *hyper*MILL solution for the milling of cavities which can reduce the time for design change to delivery of the milled cylinder head, from several days to just a few hours. Ease of use, speed and process security are the reasons why this innovative solution is used by several engine tuners and Formula 1 race teams. Due to leading edge *hyper*MILL technology, cooperation agreements could be completed with a number of renowned precision machine tool manufacturers.

The OPEN MIND CAM solutions are not only sold in Europe, but also, through subsidiaries, in the USA, Asia/Pacific and Japan. With sales of more than EUR 15 mln, the M+M group belongs in the first tier of vendors in the important niche market of CAM solutions.

DATAflor Software AG
Group member since Q1/2002 (61.5%), since 1999 minority shareholding

DATAflor Software für Ihren Erfolg

DATAflor has a strong position in the German-speaking gardening and landscaping market and contributed approximately 18% to the gross margin in the M+M Technology segment in 2006. The proffered solutions not only contain a graphical planning section but also tools for complete financial calculation and billing such projects. DATAflor was founded in 1982 and maintains evolved customer relationships which are carefully nurtured.

This has enabled DATAflor, in spite of difficult market economies in past years, to further enhance their already high market share in this niche market.

Elektro-CAE Software GmbH (ECS)
Group member since Q1/2002 (60%), since 1998 minority shareholding

ecs Elektro-CAE-Software

ECS is the developer of ecscad, a leading electrical engineering application in the Autodesk world, being exclusively marketed by the M+M group for over 10 years and contributing nearly 10% to the gross margin in the M+M Technology segment in 2006.

The emphasis in electrical engineering solutions is not in the graphical but in the database area. Ecscad has its special strength here. Large electrical engineering projects, e.g. at railroad companies, contain up to a thousand or more diagrams which are interlinked by very extensive cross references with each other. These cross references are managed automatically by ecscad in a special database. As a result, the potential for rationalization for such customers is particularly high.

ECS solutions are not only marketed in Europe but are also sold in the USA and in Asia through local distribution and OEM partnerships.

About 20,000 installations of ecscad are existing in all areas of the mechanical and electrical industry. To address even more customers in the future, new modules are constantly being developed, e.g. for the special requirements of TV studios or the energy supply industry.

Mensch und Maschine Akademie GmbH
Group member since 1999 (100%),
since 1998 minority shareholding

mensch maschine
Akademie

M+M Akademie is the only pure service subsidiary in the group concentrating on the areas of training and customer-specific software applications. In 2006, software projects for important customers like Deutsche Bahn, Hydro Building Systems, HypoVereinsbank and Siemens were executed and approximately 1,100 people have been trained. The contribution to the gross margin in the M+M Technology segment in 2006 was more than 3 percent.

RoCAD for building services
The building service solution RoCAD for the design and construction of heating, air conditioning, plumbing and electricity, developed at the M+M headquarters, holds an important market position in the Autodesk environment with about 2,000 installations. The RoCAD Technology was sold to Autodesk in October 2006 and is marketed now as Autodesk Building Systems (ABS) for the German-speaking area and distributed by M+M in the trading segment.

CAD*erschwinglich* product lines

CAD
erschwinglich

The CAD*erschwinglich* (CAD affordable) low price product lines have a long inhouse tradition at M+M. Though only contributing approximately one percent to the gross margin in the M+M Technology segment, they create a unique profile for M+M in the low price segment (AutoCAD LT), which meanwhile represents nearly one quarter of the business in the trading segment.

Symbols and parts libraries
From 1988 onwards, M+M has developed symbols and parts libraries, also called ‘electronic stencils’, offering the CAD user lots of standard parts and symbols for very little money. Currently, the collection includes approx. 26,000 symbols and parts, being edited in 10 library packages, which cover a broad sector bandwidth and are used for illustration of documents of any kind, not only in CAD systems but also in Microsoft Office.
At a list price of 60 Euros (+VAT) and over 200,000 copies sold, the libraries are the lowest cost, as well as the highest volume, products made by M+M.

AutoCAD*menu*
Priced above the libraries, there are CAD*erschwinglich* product lines AutoCAD-*menu* - three low cost user interfaces and applications for 150 to 300 Euros (+VAT), which make the daily drafting work easier e.g. for mechanical or architectural users. They are compatible with the M+M symbols and parts libraries.

EUKLID Software GmbH
Group member since Q2/2001 (100%), since 2000 minority shareholding

The EUKLID business in the CAD/CAM area has been increasingly transferred to OPEN MIND over recent years.
In parallel, headcount and expenses were reduced dramatically. In the course of 2004 and 2005, nearly all product lines were sold or sublicenced, removing the former overlap with the OPEN MIND product portfolio.

Strategic minority shareholdings
In addition to the technology subsidiaries, M+M has other strategic minority shareholdings, rounding up their market position in some niche markets.

In the architecture/construction area M+M holds shares in CTB GmbH & Co KG, Buchholz near Hamburg (M+M share 19.9%) and in SOFiSTiK AG, Oberschleissheim/ Nuremberg (M+M share 14.3%).
CTB and SOFiSTiK are both offering high-quality software solutions for architecture, civil engineering and statics. A further share is held in Cyco BV, Netherlands (M+M share 7.4%), a supplier of EDM (Electronic Document Management) solutions.

The minority share in yello! AG, Wiesbaden, acting as Autodesk distributor in the visualization and animation area, was turned into a majority shareholding by purchase of approximately 53% of the shares as of October 1, 2006 (M+M share new: 82.3%) and fully consolidated beginning in Q4/2006 in the trading segment.

Large target market CAD/CAM software
The worldwide market for CAD/CAM software has an annual sales volume of more than EUR 10 billion (Sources: Daratech, Dressler-Verlag, own) and is segmented into mechanical engineering, PLM, architectural/construction, visualization, geography, electrical engineering, electronic and structural analysis. Except for the latter two, M+M covers all of the segments.

The volume of M+M's main market, Europe, thus is just over EUR 3 bln, meaning that M+M reaches a direct market share of 5-6%. The indirect market share, equal to the sales volume of the M+M reseller network in the market, probably ranges above 10%, because the resellers' sales multiple is estimated to be in the order of magnitude of 2 to 2.5.

Protecting and expanding the market position
Totalling EUR 26.4 mln in fiscal year 2006 (PY: 25.2), sales and marketing continued to hold the largest share (64%) in group operating expenses. This sum contains a marketing budget amounting to EUR 8.0 mln (PY: 6.7), primarily used for advertisements, trade shows and other marketing activities to protect and expand M+M's market position.

Marketing budget concurrently optimized
The marketing area is continuously optimized in order to reach as many potential customers as possible with the funds spent. The trend for trade shows has been to be present at more shows whilst using a lower budget per stand (in 2006 M+M attended 50 shows in 16 countries). As an indirect vendor, M+M is attending trade shows often partnering suitable resellers. Like all marketing activities offered by M+M, the resellers' trade show expenses are settled via the *PR-Pool*, a revenue-driven marketing fund for authorized M+M partners.

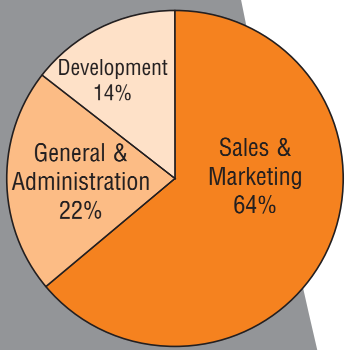
Live presentations via web
In addition to the classical presentation methods like trade or road shows, the web is playing an increasingly important role in product presentation. Taking this into account, M+M is increasingly using the opportunity of live web presentations. Introduced at the end of 2005, approximately 2,500 prospects have already attended various online product presentations in the course of 2006 - indicating a positive future trend. As always, M+M offers this option to authorized dealers for their own presentations.

Important topics:
Address qualification and CRM
Nothing is more wasteful than trawling through unqualified or duplicated addresses. The target of our web-based CRM system (Customer Relationship Management) and our focused use of telemarketing activities is to keep actuality and compactness of our address database containing approximately 150,000 entries. As well, an efficient and timely distribution of prospects' leads within the M+M reseller network is essential - including tough control of the resellers' performance to make sure that requests from end users are answered quickly and to the best standard possible.

Strong focus on IT and backoffice
A prerequisite for the efficient use of marketing funds, as well as for a well-functioning supply chain, is an optimized IT and backoffice system.

SAP used as ERP system
Since 1997, M+M has used the SAP ERP system, which in the meantime has been introduced in nearly all group companies and was updated to the most recent version of mySAP ERP at the end of 2005.

More than 60% of orders through web shop
Along with the growing integration of the individual components, the processes could be optimized. E.g. more than 60% of all orders are coming in electronically through the internet, because customers can use web shops for comfortable ordering round the clock. There is a closed shop for authorized resellers, fully integrated in mySAP ERP, and an open shop for end customers in the low-price sector (CAD*erschwinglich*).



The distribution of operating expenses in the M+M group shows a clear dominance of sales and marketing expenses

Integration with suppliers and customers ...
The mid range goal in the IT/backoffice area is the full integration of the supply chain in order to further save processing costs and eliminate error sources. This requires an electronic interface not only on the customer but also on the supplier side (Supply Chain Management - SCM).
The main supplier Autodesk has already been interfaced as far as possible.

... drives up electronic order entry quota
As soon as Autodesk has installed a single order entry interface, which has been announced for the end of 2007, the electronic order entry quota will further accelerate towards 100%, opening high cost saving potentials for M+M as well as for our customers.

High ongoing development investments ...
With a total amount of EUR 6.0 mln or 14% of operating expenses in 2006 (equalling 35% of segment operating expenses), research and development again represented a significant cost factor in the M+M group. These funds were used for the maintenance and development of M+M software products.

... are not capitalized:
software library is a hidden reserve
Capitalization of development costs according to IAS 38.45 is not applied by M+M, meaning that the extensive software base of the group containing hundreds of man years of invested development power represents a hidden reserve.

Employees are co-entrepreneurs

Traditionally, there is a very high focus on good corporate culture at M+M. During the 23 years since the foundation of the company in 1984, the employees were always seen as ‘Co-Entrepreneurs’ and fully integrated in the decision making process. Whenever acquiring companies in and outside Germany in the course of the intensive expansion since IPO in 1997, M+M always cared for and respected the specific culture of the companies acquired and encouraged them to adopt M+M corporate culture very gently. The decision making structures in the M+M group are as decentral as possible, the individual entities have a high degree of autonomy in order to achieve the best possible results in the individual markets and to be able to optimally meet the customers' requirements.

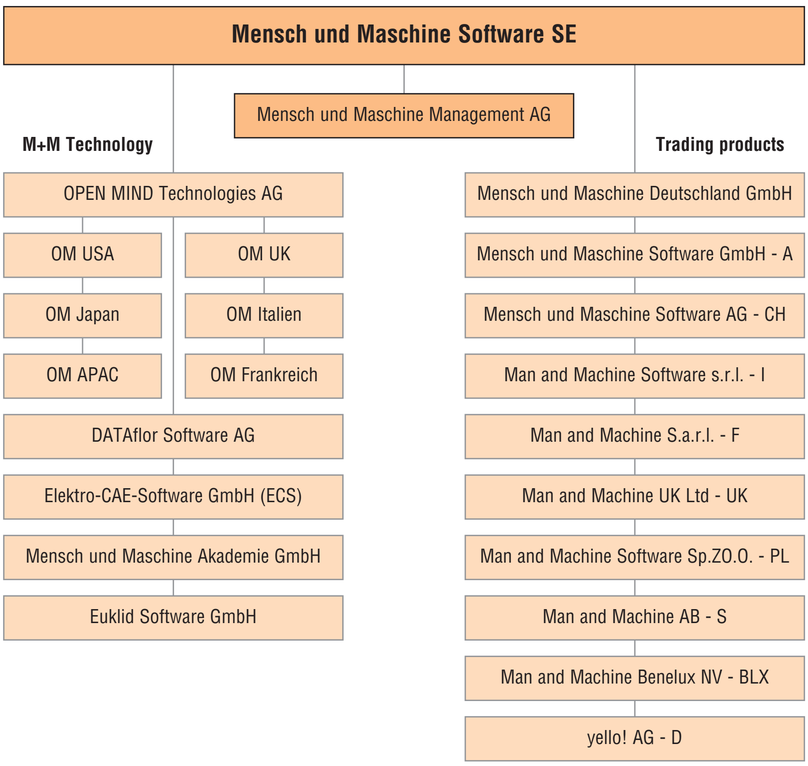
Experienced management team

This corporate culture generates a high degree of continuity. Fluctuation in the M+M group is very low, which especially during the hype phase of the IT industry at the end of the 90’s prevented a drain of qualified specialists from which other similar companies in IT suffered. As a result, M+M has an experienced management team down to the second and third management level, with team members mostly looking back on an employment period of more than 10 years.

Conversion to ‘European SE’ completed

In 2006, Mensch und Maschine Software AG was converted to a ‘Societas Europaea’ SE by decision of the annual shareholders’ meeting at May 30, 2006 and registration by Handelsregister München under the new HRB 165 230 dated Dec 7, 2006. In parallel, the holding structure planned for a long time was realized, including the spin-off of the operating German business from the mother company to the new subsidiary Mensch und Maschine Deutschland GmbH.

As per December 31, 2006, the M+M group has a classical holding structure with the mother company Mensch und Maschine Software SE acting as a finance holding. All management and service functions for the group were transferred to subsidiary Mensch und Maschine Management AG, while all operating business is performed by German and international subsidiaries.
In this respect, nothing has changed except for the spin-off of the exisiting German distribution business from the old M+M AG to the new M+M Deutschland GmbH.
The following graphic shows the new holding structure of the M+M group:



The step to the SE was combined with a streamlining of the management structure to a 'monistic' board system. During the shareholders' meeting, the founder and main shareholder Adi Drotleff was elected as chairman to the Administrative Board (Verwaltungsrat), together with two former members of the Advisory Board, Norbert Kopp (Deputy Chairman) and Thomas Becker. The Verwaltungsrat combines the functions of the Advisory Board of an AG with those of an Administrative body ('Organ'). The Board of Managing Directors ('Geschäftsführende Direktoren'), equalling the 'Vorstand' of a German AG without being a legal body ('Organ'), consists of Drotleff (CEO) plus the four former 'Vorstände' Werner Schwenkert (CTO), Peter Schützenberger (CFO), Michael Endres (Marketing) and Jens Jansen (CIO).

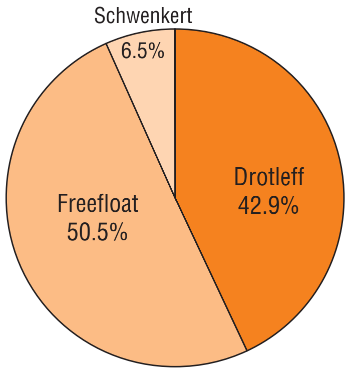
Remuneration of Managing Directors

The remuneration system of the SE is detailled in the notes. Generally, the Managing Directors get a remuneration consisting of a fixed and a variable part. Additionally, there are non-cash components, e.g. company cars. With the exception of Mr. Drotleff, the Managing Directors get share options according to the option program decided by the shareholders' meeting. Their options are assigned by the Administrative Board.

Public and private company

Though M+M shares have been listed on the stock market for nearly 10 years, a large portion of the shares are still in the hands of the management. Adi Drotleff, the founder, CEO and Chairman of the Board, holds more than 5.4 million shares or 42.9% of the approximately 12.6 million shares outstanding at Dec 31, 2006. A package of 0.8 million shares (6.5%) is owned by CTO Werner Schwenkert. This was created from the acquisition of OPEN MIND AG by the M+M group through a share swap in 2002.

The free float at Dec 31, 2006, contained about 6.4 million shares or 50.5%. A certain portion thereof was held in smaller packages by other members of the management. M+M thus can be seen as a public and a private company in one.



Chances and Risks

The operations and activities of the M+M group are subject to various chances and risks. The risk management is controlled directly by the Managing Directors by monitoring risk relevant parameters from the individual group segments and by comparison with the internal targets, to allow for a timely reaction in case of changes within the enterprise or in the enterprise's environment. Our monitoring system is constantly optimized to maintain an appropriate standard. Chances are resulting from the successful translation of our general strategic concept. Their potential is detailed in the 'outlook' chapter.

In detail, the following risk categories exist:

Credit risks:

Bad debt risks are counteracted with customer credit insurance, individual bad debt provisions, and streamlined receivables management.
Also favourable in this respect, is the fact that sales are divided among many individual customers each of which carries less than 3.5% of the total group revenue.

Warehouse and transport risks:

These risks are generally covered by corresponding insurance contracts.
A risk of loss in value during warehousing can be considered virtually non-existent since the suppliers' software product contracts always comprise a price, update and stock rotation clause.

Sales and market risks:

As with every other supplier of standard software, M+M is subject to software market and product cycles, especially those of the CAD/CAM market. Such risks are generally counteracted, as far as possible, by the vertical and regional division of the M+M Group as well as by the spread across several product lines, but risk may not always be fully compensated by these actions.

Personnel risks:

As an enterprise in the software industry, M+M is, in principle, dependent on individuals with special skills.
M+M's distinctive corporate culture, so far, has been instrumental in keeping employee turnover exceptionally low.
The risk of dependence upon key top management people has been counteracted by appointing several Managing Directors and by strengthening the secondary management level.

Supplier risks:

Concentration on the main supplier Autodesk represents a certain risk through dependency on this supplier's product development, market competence and operational policy.

Losses at subsidiaries and shareholdings:

In all shareholding or subsidiary relationships, it is recognised that there is a risk that, contrary to positive expectations, a negative development may occur possibly proceeding to total loss. This would not only cause an appropriate impairment of goodwill or investment value but also lead to a corresponding writedown of deferred tax assets in case of fully consolidated subsidiaries with loss carryovers.

Financing and liquidity risk:

As in any business model not exclusively financed by equity, there is a dependency risk for the debt financed part due to the refinancing capabilities of the financial market. This risk is counteracted by distribution of credit lines at several banks inside and outside Germany. It cannot be excluded, however, that the refinancing interest rate payable by M+M may develop negatively or the refinancing by debt may fail in parts or in total. In this respect, internal as well as external influences play a roll. Internal influences are mainly the earnings and financial status impacting the M+M market rating, as well as the management's ability in handling relationships with existing and potential creditors. External influences are for example the general interest rate level on the market, the credit policy of banks and other creditors, as well as the legal framework conditions like the Basel-II-Guidelines being intensively discussed.

Information to be provided in accordance with section 315, para 4, HGB (German Commercial Code)

Re section 315, para 4 , no. 1, HGB
The subscribed capital of Mensch und Maschine Software SE on the balance sheet date was EUR 12,611,532 and the capital is divided into 12,611,532 no-par shares. The shares are registered in the name of the holder.

Re section 315, para 4 , no. 3, HGB
Mr. Adi Drotleff, Chairman of the Administrative Board (Verwaltungsrat) and Managing Director of the company, holds around 42.9% of the subscribed capital.

Re section 315, para 4 , no. 6, HGB
Since the company, under article 20 of the law implementing Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European Company (SE) (SE implementing law - SE-IL), in its articles of association has opted for the monistic system with an administrative body (Verwaltungsrat), the provisions of articles 21 et seq., SE-IL, apply instead of sections 76 to 116 of the AktG German Companies Act.

According to section 28, para 1, SE-IL, appointment of the members of the Administrative Board is governed by Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European Company (SE) (SE-REG). According to article 43, para 3, SE-REG, the members of the administrative body are appointed by the general meeting.

In addition to that, article 10, para 1, of the articles of association of Mensch und Maschine Software SE provides that the Administrative Board is made up of three members elected by the general meeting. Unless otherwise decided by the general meeting, the members of the Administrative Board are elected for the time until the end of the general meeting deciding on the formal approval for the fourth financial year after the start of their term of office.
The year in which the term of office starts is not counted.

Members of the Administrative Board elected by the general meeting without linkage to a nomination may in accordance with article 29, para 1, SE-IL, be recalled by the general meeting prior to the end of their term of office. Such decision requires a majority of not less than three quarters of the votes cast. Supplementing this, article 10, para 4 of the company's articles of association provides that members of the Administrative Board elected by the general meeting without linkage to a nomination are recalled prior to the end of their term of office. The decision can be taken with a simple majority.

According to article 40, para 1, SE-IL, the Administrative Board appoints one or several Managing Directors. Members of the Administrative Board may be appointed Managing Directors provided that the majority of the Administrative Board after the appointment still are non-managing members.

In addition to that, article 14, para 1, of the articles of association of Mensch und Maschine Software SE provides that the Administrative Board appoints one or several Managing Directors. Members of the Administrative Board may be appointed Managing Directors provided that the majority of the Administrative Board after the appointment still are non-managing members.

According to article 40, para 5, SE-IL, Managing Directors may at any time be recalled by a decision of the Administrative Board, unless otherwise provided in the articles of association. According to article 14, para 2, of the company's articles of association, Managing Directors may be recalled at any time by a decision of the Administrative Board. A Managing Director who is at the same time a member of the Administrative Board can only be recalled for an important reason. This goes for Mr. Adi Drotleff.

According to article 51, SE-IL, the articles of association may provide that a simple majority of the votes cast is sufficient for the general meeting to make a decision to change the articles of association, provided that at least half of the share capital is represented. This does not apply to any change to the objects of the company, to a decision in accordance with article 8, para 6, SE-REG, and to cases in which a greater capital majority is required by law.

In addition to this, article 17, para 2, sentence 2, of the articles of association of Mensch und Maschine Software SE provides that, unless imperative legal regulations stand in the way, changes to the articles of association shall require a majority of two thirds of the votes cast or, if at least half of the share capital is represented, a simple majority of the votes cast.

Re section 315, para 4 , no. 7, HGB

Under article 7 of the articles of association, the Administrative Board is authorised to increase the company's share capital before or on May 29, 2011 once or several times by an aggregate amount of up to EUR 6,050,000 by issuing new no-par shares for cash deposits and/or for contributions in kind, which shares shall be entitled to a share of profits from the beginning of the financial year current at the time of issuance (authorised capital 2006). Shareholders shall be given a subscription right.

The Administrative Board is authorised to exclude the shareholders' subscription rights

- if and in so far as this is necessary to equalise fractional amounts;
- to issue the new shares for contributions in kind, in particular for the purpose of acquiring an enterprise, shares in an enterprise or an interest in an enterprise;
- if the share capital is increased for cash deposits in so far as the share in the share capital allotted to the new shares in aggregate neither exceeds 10 per cent of the share capital existing at the time this authorised capital is registered, nor exceeds 10 per cent in aggregate of the share capital existing at the time the new shares are issued, and the issue price of the new shares is not considerably lower than the stock market price; if the 10% limit is made use of, then the exclusion of the subscription right based on other authorisations under section 186, para 3, sentence 4, AktG, must be included.

Previous year restated after DPR audit

The Group Financial Statement 2005 was restated after a sampling audit by Deutsche Prüfstelle für Rechnungslegung e.V. (DPR). The restatement mainly consists of goodwill and tax asset impairments. Bottom line, positive and negative non-recurring effects in fiscal year 2005 are nearly balanced out, resulting in restated net earnings which are nearly equal to those achieved by operating business. For details see notes from page 61 onwards.

Course of business 2006 and situation of the group

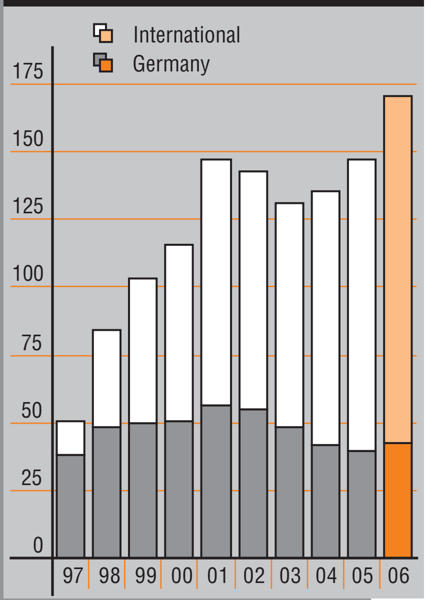
In fiscal year 2006, the M+M group fully returned to the long term growth path after a consolidation phase of several years, marking new company records for sales and operating earnings.

New sales record - 170 million barrier hit

Sales climbed by 16% to EUR 170.3 mln (PY: 147.2), meaning that the growth rate for the first time since 2001 was higher than the continued annual growth rate (CAGR) of 14% since the IPO in 1997. The international share of revenue once more climbed slightly to 75% after 73% in the previous year.

The strong revenue development since floatation is also significantly visible on a per share basis: Revenue per share doubled from EUR 6.67 in 1997 to EUR 13.51 in 2006 - an indication of the growth of inner value during the past ten years.

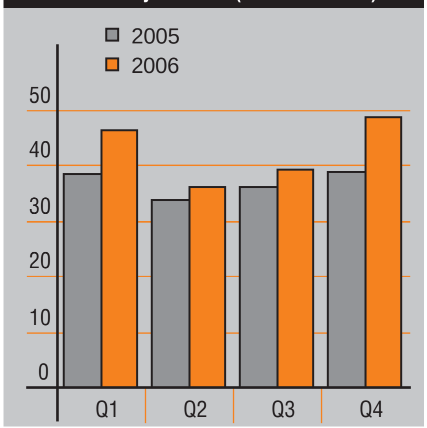
Group revenue (in million EUR)



Back to typical quarterly seasonality

Quarterly sales seasonality in 2006 returned to the pattern typical for M+M, including strong beginning and ending quarters and significantly lower sales in Q2 and Q3, while the previous year had a more constant seasonality. Highest sales as well as strongest growth compared to the previous year were measured in the fourth quarter, which came in at EUR 48.8 mln (PY: 38.9 / +26%), while Q2 as in the previous year saw the slowest sales at EUR 36.0 mln (PY: 33.7 / +7%).

Quarterly revenue (in million EUR)



Growth driver distribution
Growth in 2006 was clearly driven by the trading segment with a sales increase by 18% to EUR 147.7 mln (PY: 125.3), though this unit was negatively impacted by the discontinuation of PTC distribution from April 1, 2006. As expected, the superior development in the Autodesk area more than compensated this effect. Adjusted by the PTC revenue shortfall amounting to EUR 14.3 mln, and on the other hand by the additional sales amount of EUR 1.1 mln from the first time consolidation of yello! AG in Q4/2006, the organic growth in the trading segment was 32 percent.

M+M Technology also improved
The sales increase in the M+M Technology segment by 3% to EUR 22.6 mln (PY: 21.9) looks relatively small. But compared to the reduction by 18% from 2004 to 2005, which had been primarily caused by the sale of Compass, it represents a significant trend change. Additionally, in the previous year there was a consolidation of Compass sales in the amount of EUR 0.6 mln, adjusted by which there was 6% organic growth in the M+M Technoloy segment.

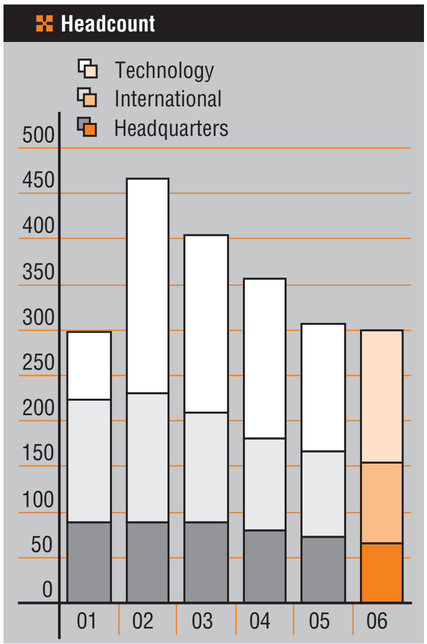
Total organic sales growth: 28%
After adjustment of all effects from PTC, yello! and Compass, the organic growth of total group sales was 28% instead of the nominal 16 percent.

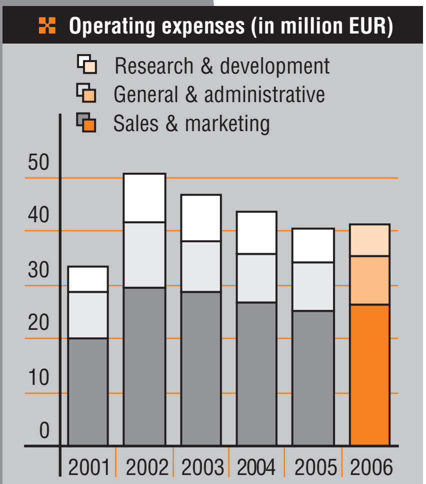
Gross margin balance between distribution and own technology is still intact
After deduction of purchased goods (trade) or cost of production (M+M Technology), gross margin significantly increased, after a three year stagnation, to EUR 46.73 mln (PY: 42.25 / +11%). The share from M+M technology and service amounted to 43% after 45% in the previous year, indicating that the balance between own and traded software in gross margin (the parameter for added value) is still intact. We also do not expect significant changes for this balance between the segments in the years to come.

Headcount once more slightly decreased
The number of employees, which had jumped from 298 to 467 between 2001 and 2002 in the course of the technology offensive and reduced in the following three years to 307 on a 2005 yearly average through synergy, restructuring programs and disinvestments, once more slightly decreased by 2% to 300 on a 2006 yearly average. 48% of the 300 employees in the M+M group worked in technology subsidiaries, 30% in international subsidiaries in the distribution business unit and 22% in the headquarters, covering group holding and management functions as well as distribution in Germany.

Restructuring finally completed
The total amount invested in the now finally completed restructuring was EUR 8.1 mln (distributed to EUR 1.9 mln in 2002, EUR 2.2 mln in 2003, EUR 1.9 mln in 2004, EUR 1.7 mln in 2005 and EUR 0.4 mln in 2006). Meanwhile the headcount is back to the growth path: At December 31, 2006, the M+M group employed 308 people.

Sales per head grew 86% in four years
The significant headcount reduction, combined with an increase in business volume, resulted in sales per head growing 86% from KEUR 306 in 2002 to KEUR 568 in fiscal year 2006.





Operating expense base significantly reduced

The operating expenses developed approximately in line with headcount. At first, the technology offensive caused a strong cost push with operating expenses including depreciation of fixed assets climbing from EUR 33.3 mln in 2001 to EUR 50.6 mln in 2002. The positive effects of synergy, restructuring programs and disinvestments caused a reduction within three years to EUR 40.3 mln in 2005, diminishing the expense base by a total of 20% or more than 10 million.

After this significant slimlining, a moderate increase of operating expenses began in 2006, as planned, totalling less than 3% to EUR 41.3 mln. This was clearly lower than the achieved gross margin surplus, and it was mainly caused by a higher marketing budget to support sales growth.

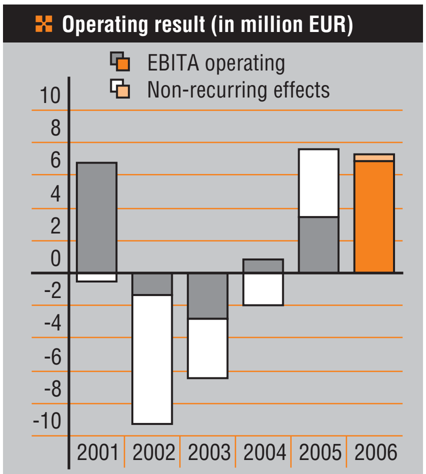
The operating expenses include notional personnel expenses from the application of the IFRS 2 rules (share based payments) for issuing share options to employees in the amount of EUR 0.23 mln (PY: 0.13).

Other operating income (excluding non-recurring effects) remained on previous year's level, amounting to EUR 1.44 mln.

Operating profit doubled

The operating result EBITA before interest, taxes, goodwill amortisation/impairment and non-recurring effects was doubled to EUR 6.84 mln (PY: 3.39), resulting in an EBITA return from sales improvement from 2.3% in the previous year to 4.0 percent.

EBITA contains depreciation of fixed assets amounting to EUR 0.89 mln (PY: 0.88), the operating result EBITDA before depreciation, amortization and non-recurring effects came in at EUR 7.73 mln (PY: 4.27 / +81%).

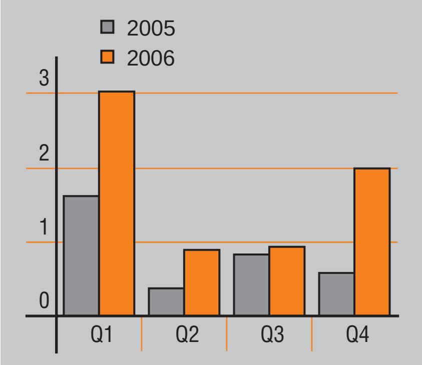


Trading profit margin now acceptable
The predominant part of the profit increase was generated in the trading segment, with EBITA before non-recurring effects jumping from EUR 0.87 mln in the previous year to EUR 3.72 mln. After three negative years from 2002 to 2004 and a minimal profit in 2005, the trading segment is now back to an acceptable operating profit level.
The achieved return from revenue of 2.5% (PY: 0.7%) is still very open to development, the long term target in the trading segment with its actually 18.1% gross yield is 4-5%.

M+M Technology further improved
In the M+M Technology segment, the operating profit EBITA before non-recurring effects also was improved to EUR 3.32 mln (PY: 2.77 / +20%). For the first time there was significant deferred revenue from maintenance contracts overlapping into 2007 to the amount of EUR 0.34 mln (PY: 0.10), which will improve the future sales and profit flow. Return from revenue in the segment climbed to reasonable 14.7% (PY: 12.6%), still leaving space for improvement.
The long term goal in this segment, where M+M is comparable to a standard software company, is in the 20-25% range.

High profile in quarterly seasonality
The quarterly seasonality in operating profit EBITA before non-recurring effects was, like usual, highly profiled. The best quarter again was Q1 amounting to EUR 3.02 mln (PY: 1.61 / +87%). Q2 and Q3 were much slower at EUR 0.90 mln (PY: 0.37 / +147%) and EUR 0.93 mln (PY: 0.83 / +13%), respectively, while the final quarter Q4 came in at EUR 1.99 mln (PY: 0.58), more than tripling the (low) result in the previous year.

Quarterly EBITA operating (in million EUR)



This strong seasonal profile shows that the M+M business model disproportionately profits from higher sales and gross margins above a certain break-even point, due to the relatively constant expense base, which was significantly diminished in the consolidation phase. Mid term, this should allow for an increase of EBITA margin from the achieved 4.0% up to the 6 to 7 percent zone.

Non-recurring effects totalled positive, but not as dominant as in the previous year
The extraordinary gain from the sale of RoCAD amounting to EUR 0.79 mln looks rather small compared to the EUR 8.29 mln from previous year's COMPASS and C-Plan disinvestments. On the other hand, costs for restructuring only totalled EUR 0.38 mln (PY: 1.69), and there was no impairment of goodwill (PY: EUR 2.41 mln). Altogether, total non-recurring effects amounting to EUR 0.42 mln (PY: 4.19) were much less dominant as in the previous year.

EBIT margin climbed to 4.3 percent
Operating profit EBIT after all depreciations and non-recurring effects 2006 amounted to EUR 7.25 mln, resulting in an EBIT margin of 4.3 percent. Previous year's EUR 7.58 mln are not directly comparable due to included non-recurring effects.

Finance cost lower against interest rate trend
The financial result could be improved to EUR -2.17 mln (PY: -2.40) against the general market interest rate trend and in spite of the higher demand for financing due to the growth. For 2007 and 2008, further optimization is planned in this field, mainly by converting relatively expensive factoring to cheaper financing methods.

High jump in adjusted pretax profit
Earnings before tax amounted to EUR 5.08 mln (PY: 5.18). Adjusted by the non-recurring effects, the strictly operating pretax profit jumped from EUR 0.99 mln in the previous year to EUR 4.67 mln.

Tax burden higher than expected
The total incurred tax burden amounting to EUR 1.88 mln (PY: 4.64) is composed from tax expenditure amounting to EUR 2.20 mln (PY: 1.92) and a tax asset increase in the amount of EUR 0.32 mln (PY: 2.72 decrease from tax asset impairment). In fiscal year 2006, the tax loss carryovers available in the group could not be used in the expected amount, because the operating result was predominantly earned by subsidiaries without tax loss carryovers. However, any unused loss carryovers extend for use in future fiscal years. Altogether, the M+M group has loss carryovers totalling more than EUR 28 mln.
For the years to come, we expect that approximately one third of the annual profit can be set against tax loss carryovers, resulting in a mid term group tax quote in the order of magnitude of 25 percent.

Net profit amounting to EUR 0.24 per share
Bottom line, the remaining net profit was EUR 3.20 mln (PY: 0.54) before minority and EUR 3.03 mln (PY: 0.45) after minority shares. The undiluted earnings per share amounted to EUR 0.24 (PY: 0.04).

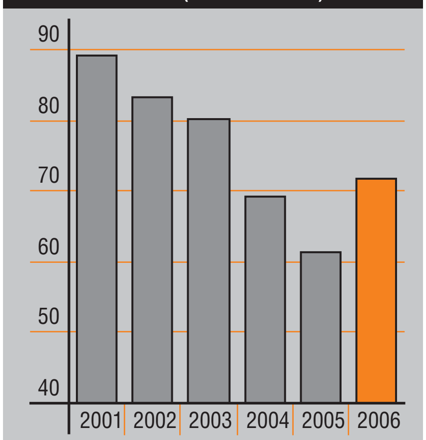
Dividend increase to 15 Cents per share
The management will propose to the annual shareholders' meeting dated May 24, 2007, a dividend payment increased to EUR 0.15 (PY: 0.10) per share. This means that just over half of the net profit will be paid out, while the rest remains in the company to finance future growth.

Capital expenditure
As in the M+M business model the main future investment is in the area of software development, the expenses for which are not capitalized, there is only relatively small capital expenditure necessary to keep the fixed assets on an actual status. During fiscal year 2006, an amount of EUR 0.9 mln was invested, including the majority takeover in yello! AG. In the previous year, there was a high inflow from disinvestments, resulting in a positive cashflow from investing activities totalling EUR 8.2 mln.

Total assets increased first time since 2001
Total assets in the group have decreased significantly since the all time high in 2001 amounting to EUR 89.2 mln in the course of past years, being down to EUR 61.4 mln as of Dec 31, 2005, which is nearly one third below the 2001 level. Drivers for this development were balance sheet cleanups and disinvestments, as well as a reduction of the value bound in current assets.

In 2006, total assets increase for the first time due to growth to EUR 71.8 mln.
In addition to the increase in non current assets to EUR 29.2 mln (PY: 27.0), mainly caused by the yello! takeover, higher trade receivables amounting to EUR 29.9 mln (PY: 23.5 / +27%) due to the strong Q4 had a significant impact.

Total assets (in million EUR)



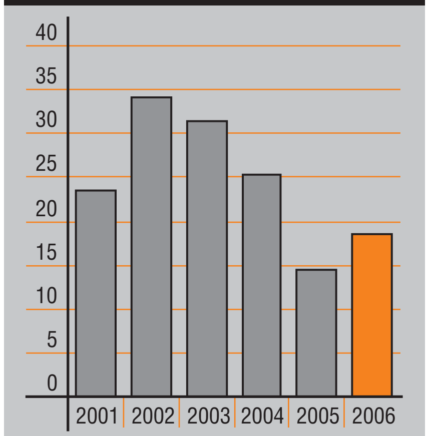
Along with normalising the payments to suppliers, who had generously helped M+M in the past years with extended payment terms to consolidate financing, accounts payable nearly remained constant in spite of the higher business volume, amounting to EUR 23.1 mln (PY: 22.7).
Therefore the increase in total assets partly is debt financed, despite the significantly improved equity volume.

As a result from this effect and due to the first time consolidation of yello!, net bank debt as of Dec 31, 2006, slightly increased for the first time since 2002 to an amount of EUR 18.5 mln (PY: 14.4). This amount consists of current bank debt totalling EUR 17.7 mln (PY: 14.2), plus non-current bank debt totalling EUR 3.6 mln (PY: 1.2), minus cash totalling EUR 2.8 mln (PY: 1.0).

Net bank debt as of Dec 31, 2006, thus was equalling 2.3 times operating profit EBITDA 2006. In the previous year, this multiple, which is an important measure for credit rating, was significantly higher at 3.4 times.

Compared with the historical high of EUR 37.2 mln reached at Sep 30, 2002, net bank debt was approximately halved and settled at an acceptable level. The mid term estimation is a seasonal floating between the range of EUR 15-20 mln in the strong quarters Q1/Q4 and the EUR 10-15 mln range during Q2/Q3.

Net bank debt (in million EUR)



Shareholders' equity significantly improved
Shareholders' equity according to IAS/IFRS in the group as of Dec 31, 2006, significantly improved to EUR 14.9 mln (PY: 10.0 / +49%), the capital ratio rose to 20.8% (PY: 16.3%). The improvement mainly is composed from the net result plus a small capital increase in March 2006 minus the dividend payment.
In addition, the nominal personnel expenses according to IFRS 2 from the granting of share options to employees increased the capital reserve by EUR 0.2 mln.
Net return on equity (ROE) climbed to 21.5% compared to 5.4% in the previous year.

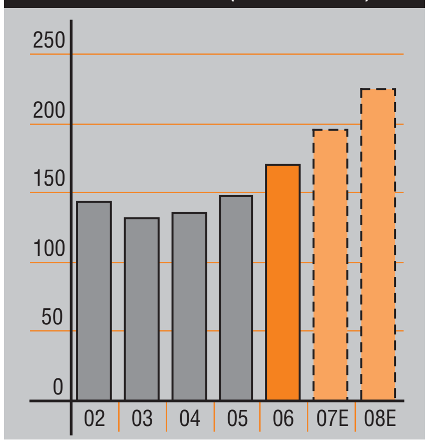
Outlook

M+M's mid term goal is to continue the organic annual sales growth around 15%, while further accelerating the return on revenue margin.
We deem this possible, because the M+M business model is very slim after a three year restructuring, containing efficiency reserves for the years to come.

Target 2007: Doubling net profit

For the current fiscal year 2007 we expect sales ranging above EUR 196 mln (+15%). The EBIT margin, which came in at 4.3% in 2006, is targeted to grow to a minimum of 5% by economy of scale effects, resulting in a EUR 10 mln (+38%) goal for operating profit EBIT. We expect the growth and value drivers to equally come from the M+M Technology and trading segment.
Together with a planned reduction of finance costs to EUR 1.5 mln, the targeted pretax profit is EUR 8.5 mln (+67%). The tax load is estimated at EUR 2.0 mln, leading to a net earnings target of EUR 6.5 mln or approx. EUR 0.50 per share, about twice the 2006 achievement.

Revenue forecast (in million EUR)

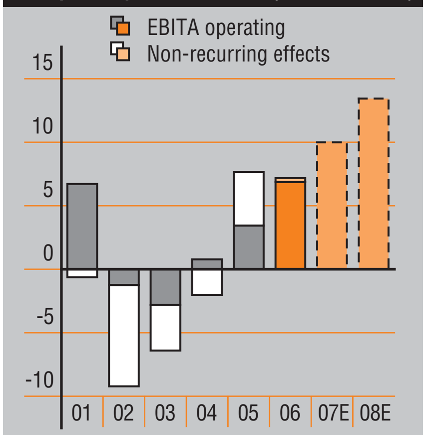


If achieving the above goals, a dividend payment increase to EUR 0.20 per share is targeted. This still would allow for retaining more than half of the net profit for further improvement of the company's balance sheet structure.

Target 2008:
EBIT margin north of 6 percent

Also for the following fiscal year 2008, sales are targeted to increase approx. 15% to a minimum EUR 225 mln. The EBIT return rate is intended to improve to more than 6% by further using economy of scale effects, resulting in an operating profit EBIT target of approx. EUR 13.5 mln, which is nearly twice the 2006 achievement.

Operating result forecast (in million EUR)



Expression of thanks

We would like to take the opportunity to thank all employees for their enormous and highly efficient engagement during the past fiscal year, which was the main foundation for our good operating progress.

In addition, we would like to express our thanks to our customers, suppliers and shareholders for the continued loyalty in the past as well as in the future. We will do our very best to deserve your loyalty every single day in the future.

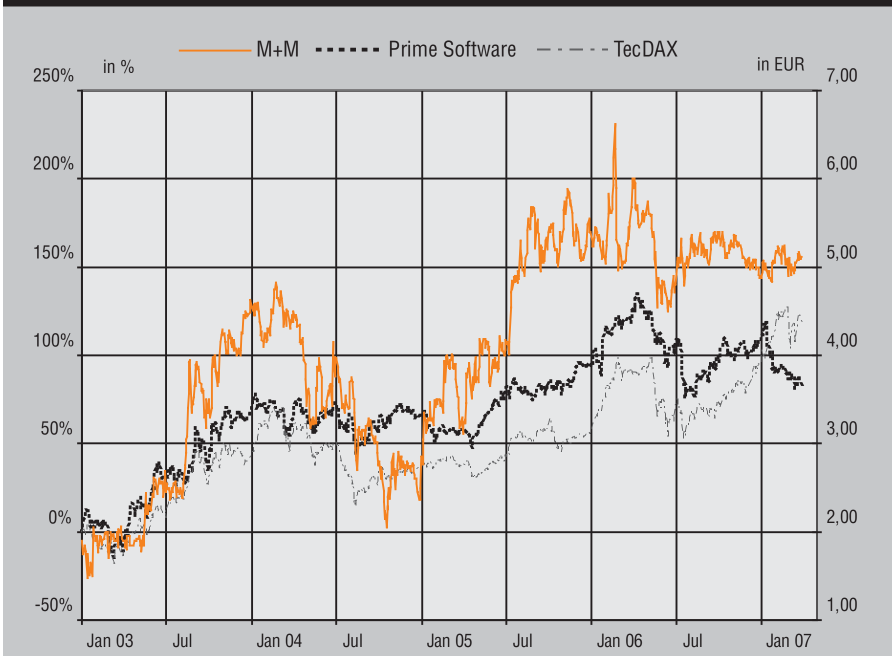
Wessling, March 2007
Mensch und Maschine Software SE
The Managing Directors

After deduction of EUR 1.5 mln finance costs (unchanged) and a tax burden in the amount of EUR 3.0 mln (tax rate 25%), the net earnings target is approx. EUR 9.0 mln or approx. EUR 0.70 per share. In the event of achievement of these goals, the dividend is intended to raise to EUR 0.25 per share.

All estimates subject to error

All forward looking statements made herein are subject to market conditions occuring in line with estimations in the planning models set up by the management. Therefore no guarantee can be undertaken for meeting the estimates.

Development of the M+M share



The M+M share has more than tripled price since its all-time low at the beginning of 2003, outperforming the comparative indexes TecDAX and Prime Software

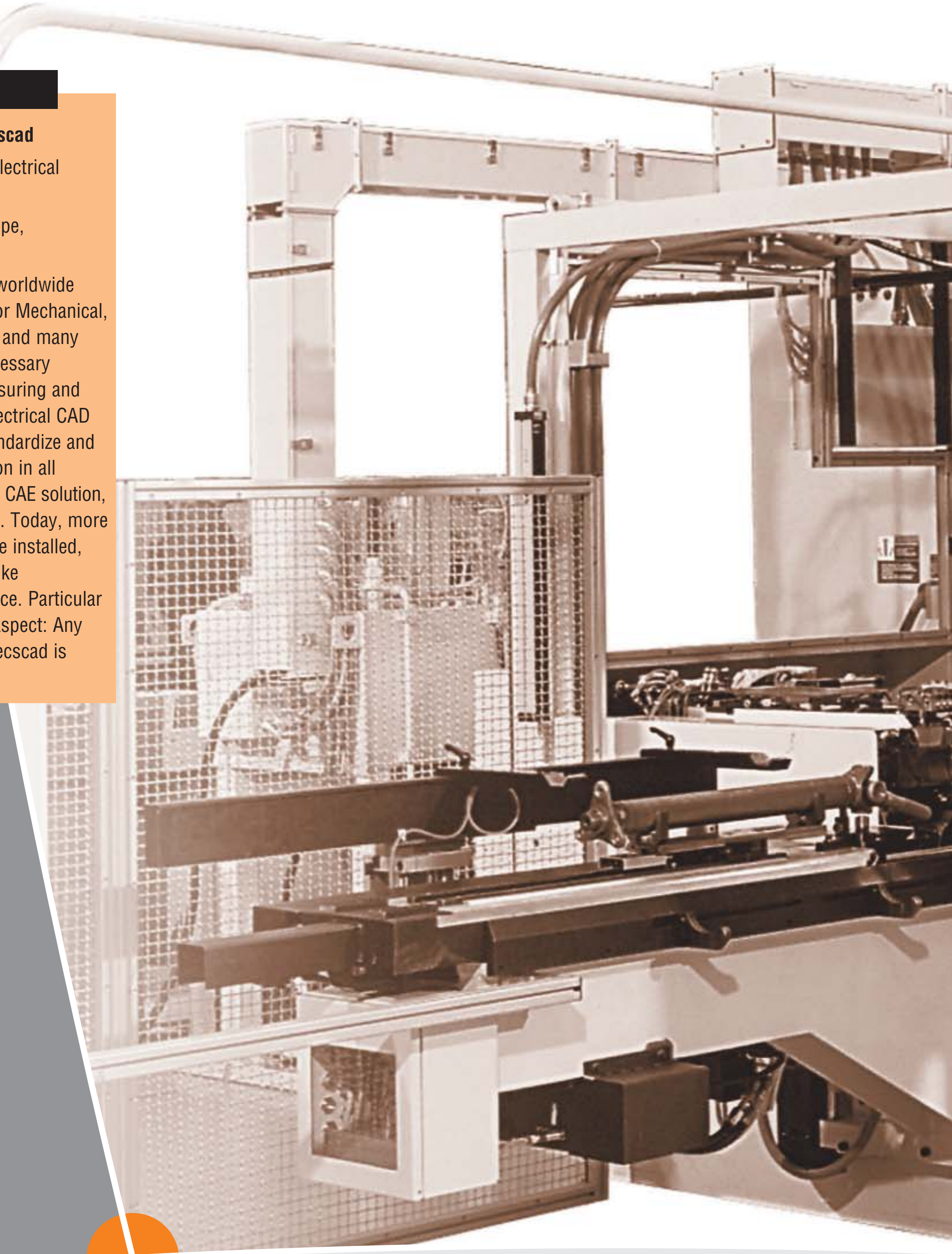
CAD in practice

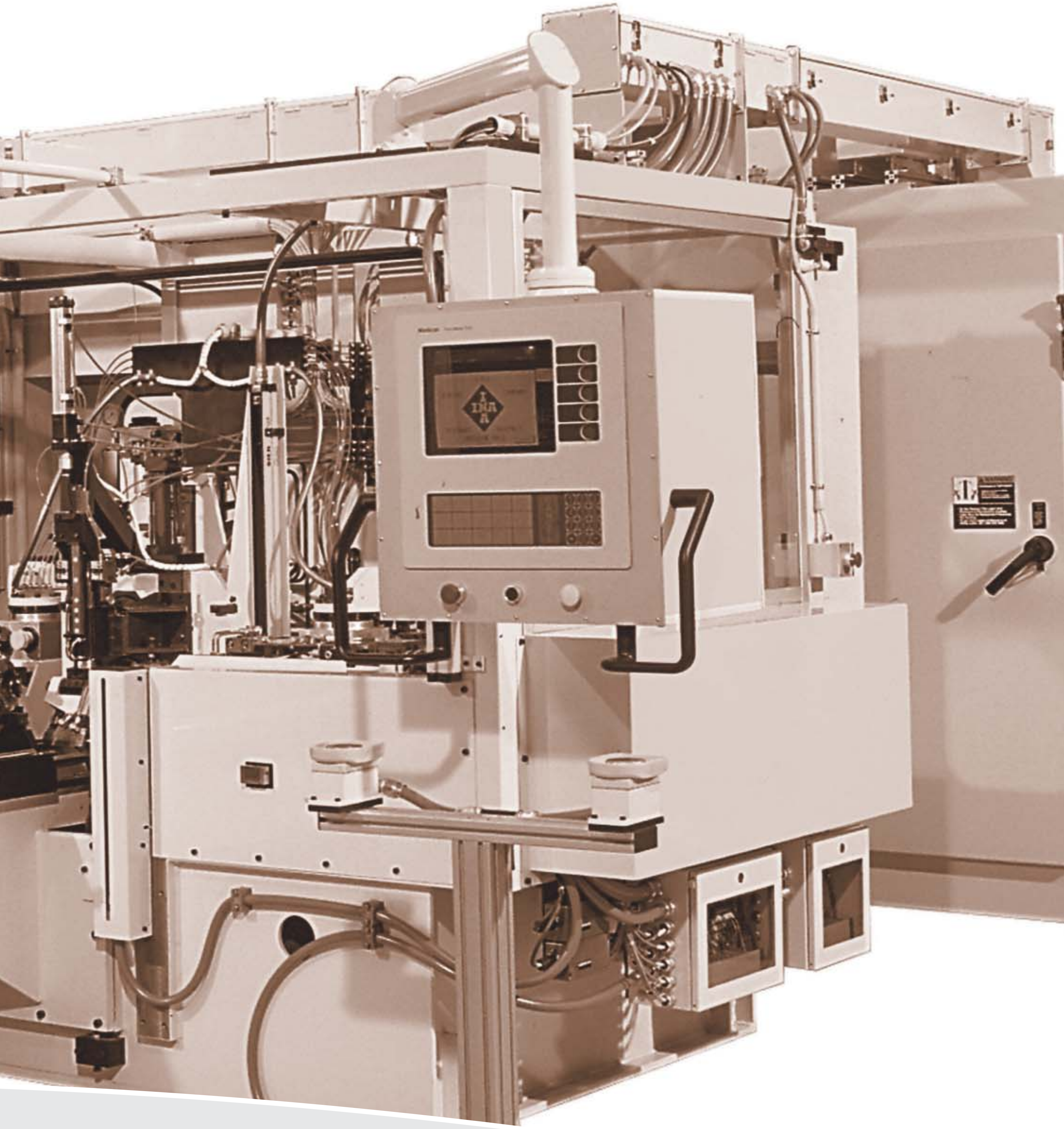
Electrical engineering with ecscad

Project: Groupwide unique electrical documentation

Customer: INA-Schaeffler-Gruppe, Herzogenaurach

The INA-Schaeffler Group is a worldwide manufacturer of components for Mechanical, Automotive, Textile, Aerospace and many other industries - including necessary production machines, and measuring and testing equipment. A unique Electrical CAD system was investigated to standardize and simplify electrical documentation in all Group locations. Ecscad, M+M’s CAE solution, resolved this problem precisely. Today, more than 50 ecscad workstations are installed, often with additional modules like ecsPublisher or the SAP interface. Particular focus was put on the security aspect: Any documentation produced with ecscad is automatically error free.





Statement of income

Amounts in KEUR	Note*	2006		△%	2005	
Revenues	1	**170,338**	**100%**	**+16%**	**147,211**	**100%**
Cost of revenues	2	-123,610	-72.6%	+18%	-104,963	-71.3%
Gross margin		**46,728**	**27.4%**	**+11%**	**42,248**	**28.7%**
Selling and marketing expenses	3	-26,354	-15.5%	+4.7%	-25,180	-17.1%
General and administrative expenses	4	-8,985	-5.3%	+2.3%	-8,785	-6.0%
Research and development expenses	5	-5,987	-3.5%	-5.4%	-6,331	-4.3%
Other operating income	6	1,435	0.8%	-0.3%	1,440	1.0%
Operating result EBITA before non-recurring effects		**6,837**	**4.0%**	**+102%**	**3,392**	**2.3%**
Disinvestment profit	7	794	0.5%	-90%	8,293	5.6%
Restructuring expenses	8	-377	-0.2%	-78%	-1,695	-1.2%
Impairment of goodwill	9	0	0.0%	-100%	-2,411	-1.6%
Operating result EBIT before interest and taxes		**7,254**	**4.3%**	**-4.3%**	**7,579**	**5.1%**
Financial result	10	-2,171	-1.3%	-9.5%	-2,399	-1.6%
Result before taxes		**5,083**	**3.0%**	**-1.9%**	**5,180**	**3.5%**
Taxes on income	11	-1,878	-1.1%	-60%	-4,636	-3.1%
Net result after taxes		**3,205**	**1.9%**	**+489%**	**544**	**0.4%**
thereof attributable to M+M SE shareholders		3,028	1.8%	+580%	445	0.3%
thereof attributable to minority shareholders		177	0.1%	+79%	99	0.1%
Net income per share (basic)	12	0.24			0.04	
Net Income per share (diluted)	12	0.23			0.04	
Weighted average shares outstanding in million (basic)	12	12.497		+3.7%	12.053	
Weighted average shares outstanding in million (diluted)	12	13.267		+3.4%	12.831	

* see notes on page 49 - 51

2005 restated, see notes on page 61 ff.

Balance sheet

Amounts in KEUR	Note*	Dec 31, 2006		△%	Dec 31, 2005	
Cash and cash equivalents		2,788		+179%	998	
Trade accounts receivable	13	29,878		+27%	23,467	
Accounts receivable due from related parties		94		-89%	859	
Inventories	14	6,020		+18%	5,105	
Prepaid expenses and other current assets	15	3,793		-5%	4,010	
Total current assets		**42,573**	**59.3%**	**+24%**	**34,439**	**56.1%**
Property, plant and equipment		2,885		-5%	3,050	
Investment properties	16	1,570		+100%	0	
Intangible assets		921		+140%	384	
Goodwill	17	17,348		0%	17,348	
Other Investments	18	1,870		-18%	2,269	
Deferred taxes	11	4,644		+18%	3,941	
Total non current assets		**29,238**	**40.7%**	**+8%**	**26,992**	**43.9%**
Total assets		**71,811**	**100%**	**+17%**	**61,431**	**100%**
Short term debt and current portion of long term debt	19	17,652		+25%	14,176	
Trade accounts payable		23,094		+2%	22,733	
Advance payments received		0		-100%	39	
Accrued expenses	20	3,316		-9%	3,635	
Deferred revenues		344		+231%	104	
Income tax payable		1,627		-5%	1,712	
Other current liabilities	21	4,672		-10%	5,213	
Total current liabilities		**50,705**	**70.6%**	**+6%**	**47,612**	**77.5%**
Long term debt, less current portion	22	3,642		+207%	1,185	
Convertible loan	23	1,882		+2%	1,841	
Deferred taxes	11	29		+81%	16	
Pension accruals	24	463		-24%	607	
Other non current liabilities	20	178		+1%	176	
Total non current liabilities		**6,194**	**8.6%**	**+62%**	**3,825**	**6.2%**
Share capital	25	12,612		+4%	12,106	
Capital reserve	26	5,482		+63%	3,367	
Other reserves		221		0%	221	
Retained earnings / accumulated deficit		-4,481		-29%	-6,298	
Minority interest		1,014		+62%	625	
Currency conversion		64			-27	
Total shareholders' equity		**14,912**	**20.8%**	**+49%**	**9,994**	**16.3%**
Total liabilities and shareholders' equity		**71,811**	**100%**	**+17%**	**61,431**	**100%**

* see notes on page 50 and 52 to 57
2005 restated, see notes on page 61 ff.

Statement of cash flows

Amounts in KEUR	Note*	2006	2005
Net result		**3,205**	**544**
Depreciation and amortization		892	3,286
Other non cash income / expenses	27	-416	2,731
Increase/decrease in provisions and accruals		-524	505
Losses/gains on the disposal of fixed assets		-32	-8,716
Change in net working capital		-6,082	4,222
Net cash provided by (used in) operating activities	27	**-2,957**	**2,572**
Sale of subsidiaries		0	8,456
Purchase of subsidiaries, net of cash	27	-114	0
Purchase of other fixed assets		-772	-756
Sale of other fixed assets		32	459
Net cash used in (provided by) investing activities		**-854**	**8,159**
Proceeds from issuance of share capital		2,310	186
Dividend payment		-1,211	0
Proceeds from short or long term borrowings		4,457	-11,078
Net cash provided by (used in) financing activities		**5,556**	**-10,892**
Net effect of currency translation in cash and cash equivalents		45	41
Net increase / decrease in cash and cash equivalents		**1,790**	**-120**
Cash and cash equivalents at beginning of period		**998**	**1,118**
Cash and cash equivalents at end of period		**2,788**	**998**

* see notes on page 57

2005 restated, see notes on page 61 ff.

Development of shareholders' equity							
Amounts in KEUR	Subscribed Capital	Capital Reserve	Other Reserves	Profit/ Loss	Minority interest	Currency conversion	Total Equity
As of Dec 31, 2004	**12,030**	**3,125**	**221**	**-6,743**	**526**	**106**	**9,265**
Capital increase	76	110					186
Share based payment		90					90
Income attributable to M+M shareholders				5,459			5,459
Minority interest change					99		99
Currency conversions						-133	-133
As of Dec 31, 2005	**12,106**	**3,325**	**221**	**-1,284**	**625**	**-27**	**14,966**
Adjustment according to IAS 8.41 ff		42		-5,014			-4,972
As of Dec 31, 2005 restated	**12,106**	**3,367**	**221**	**-6,298**	**625**	**-27**	**9,994**
Capital increase	506	1,888					2,394
Share based payment		227					227
Dividend				-1,211			-1,211
Income attributable to M+M shareholders				3,028			3,028
Minority interest change					389		389
Currency conversions						91	91
As of Dec 31, 2006	**12,612**	**5,482**	**221**	**-4,481**	**1,014**	**64**	**14,912**

Segment reporting

The consolidated financial statement comprises a segment report according to IAS 14.

Within the segment reporting, expenses are reported separately for the segments, allowing for a segment specific report of gross profit as well as operating income before amortization of goodwill. Additionally, the distribution of impairments, income from affiliated companies, fixed assets, investments of the fiscal year and liabilities are separately reported for the segments.

Consolidation effects and activities of the holding company which are not allocatable to the segments are disclosed under 'other'.

Primary segmentation

The primary segmentation differentiates M+M technology from trading products. The first category contains all proprietary products developed within the M+M group or exclusively licensed by M+M as well as service revenues, the second category contains all trading products sold by the M+M group.

Geographical segmentation

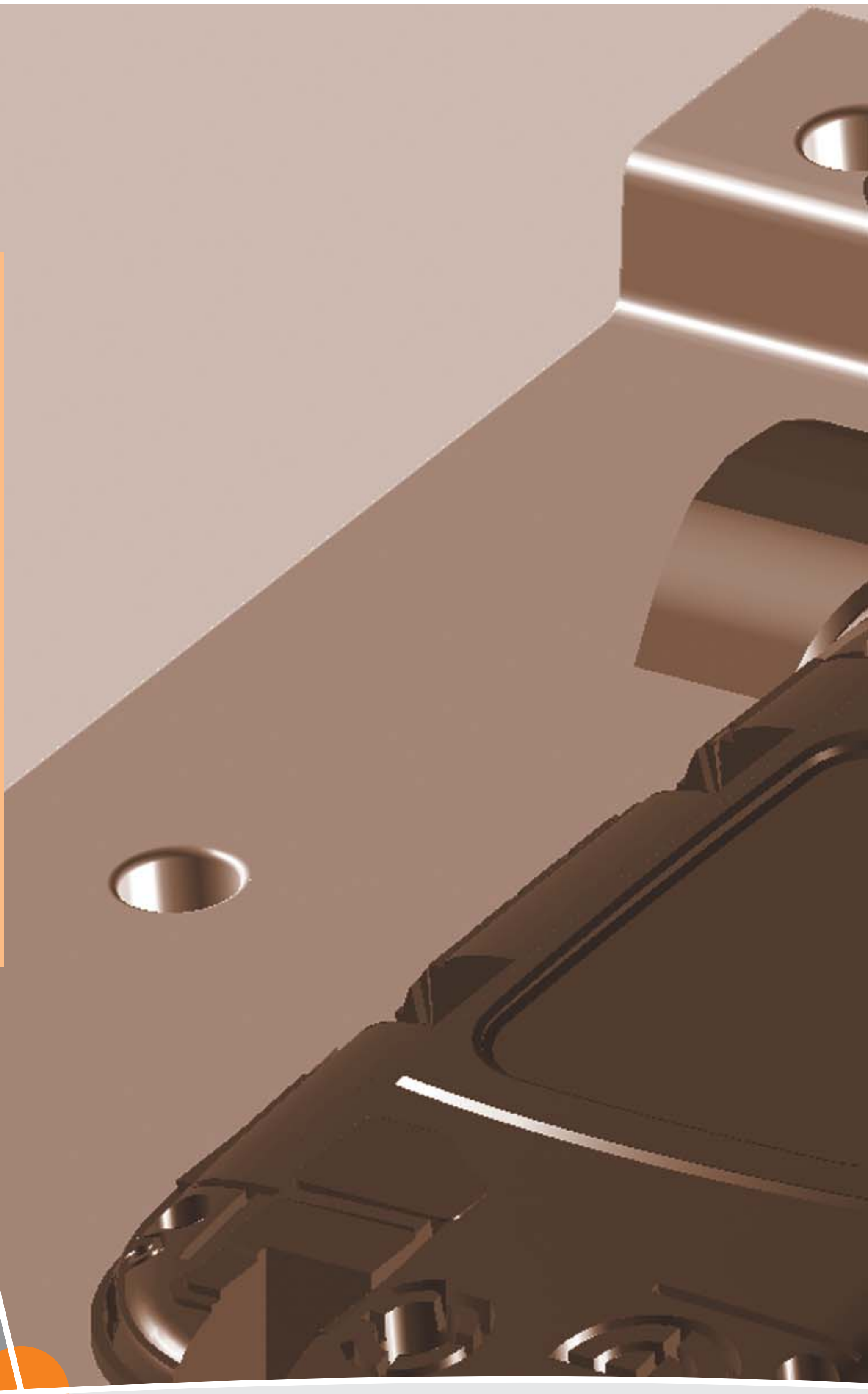
The secondary segment is geographic and distinguishes product and service revenues by the group companies inside and outside Germany.

Primary segmentation

Amounts in KEUR	2006					2005				
	M+M technology		Trading products		Other	M+M technology		Trading products		Other
Revenues	**22,642**	**100%**	**147,696**	**100%**		**21,934**	**100%**	**125,277**	**100%**	
share in percent	**13.3%**		**86.7%**			**14.9%**		**85,1%**		
Cost of revenues	-2,703	-11.9%	-120,907	-81.9%		-2,802	-12.8%	-102,161	-81.5%	
Gross margin	**19,939**	**88.1%**	**26,789**	**18.1%**		**19,132**	**87.2%**	**23,116**	**18.5%**	
share in percent	**42.7%**		**57.3%**			**45.3%**		**54,7%**		
Selling & marketing expenses	-8,788	-38.8%	-17,566	-11.9%		-8,143	-37.1%	-17,037	-13.6%	
General & administrative expenses	-2,475	-10.9%	-6,301	-4.3%	-209	-2,549	-11.6%	-5,989	-4.8%	-247
Research & development expenses	-5,987	-26.4%	0			-6,331	-28.9%	0		
Other operating income	634	2.8%	801	0.5%		661	3.0%	779	0.6%	
Operating result EBITA before non-recurring effects	**3,323**	**14.7%**	**3,723**	**2.5%**	**-209**	**2,770**	**12.6%**	**869**	**0.7%**	**-247**
Disinvestment profit	794		0			8,293		0		
Restructuring expenses	-27		-350			-1,111		-584		
Impairment of goodwill	0		0			-973		-1,438		
Operating result EBITA before interest and taxes	**4,090**	**18.1%**	**3,373**	**2.3%**	**-209**	**8,979**	**40.9%**	**-1,153**	**-0.9%**	**-247**
Segment assets	20,652		50,407		-5,462	19,897		42,694		-5,101
Fixed assets	11,535		11,489			11,143		11,908		
Depreciation of fixed assets	371		521			419		456		
Investments	400		372			425		331		
Liabilities	19,801		42,560		-5,462	21,786		34,752		-5,101

Secondary segmentation

Amounts in KEUR	2006					2005				
	Germany		International		Other	Germany		International		Other
Revenues	**45,285**	**100%**	**128,124**	**100%**	**-3,071**	**42,726**	**100%**	**107,449**	**100%**	**-2,964**
share in percent	**26.6%**		**75.2%**		**-1.8%**	**29,0%**		**73.0%**		**-2.0%**
Cost of revenues	-24,647	-54.4%	-102,034	-79.6%	3,071	-22,201	-52.0%	-85,726	-79.8%	2,964
Gross margin	**20,638**	**45.6%**	**26,090**	**20.4%**		**20,525**	**48.0%**	**21,723**	**20.2%**	
share in percent	**44.2%**		**55.8%**			**48,6%**		**51.4%**		
Selling & marketing expenses	-9,588	-21.2%	-16,766	-13.1%		-10,343	-24.2%	-14,837	-13.8%	
General & administrative expenses	-2,343	-5.2%	-6,433	-5.0%	-209	-3,067	-7.2%	-5,471	-5.1%	-247
Research & development expenses	-5,987	-13.2%	0			-6,331	-14.8%	0		
Other operating income	1,115	2.5%	320	0.2%		1,118	2.6%	322	0.3%	
Operating result EBITA before non-recurring effects	**3,835**	**8.5%**	**3,211**	**2.5%**	**-209**	**1,902**	**4.5%**	**1,737**	**1.6%**	**-247**
Disinvestment profit	794		0			8,293		0		
Restructuring expenses	-27		-350			-847		-848		
Impairment of goodwill	0		0			-973		-1,438		
Operating result EBITA before interest and taxes	**4,602**	**10.2%**	**2,861**	**2.2%**	**-209**	**8,375**	**19.6%**	**-549**	**-0.5%**	**-247**
Segment assets	27,054		56,615		-18,072	26,645		44,506		-13,661
Fixed assets	13,300		9,724			14,065		8,986		
Depreciation of fixed assets	507		385			512		363		
Investments	315		457			451		305		
Liabilities	46,595		28,376		-18,072	38,556		26,542		-13,661



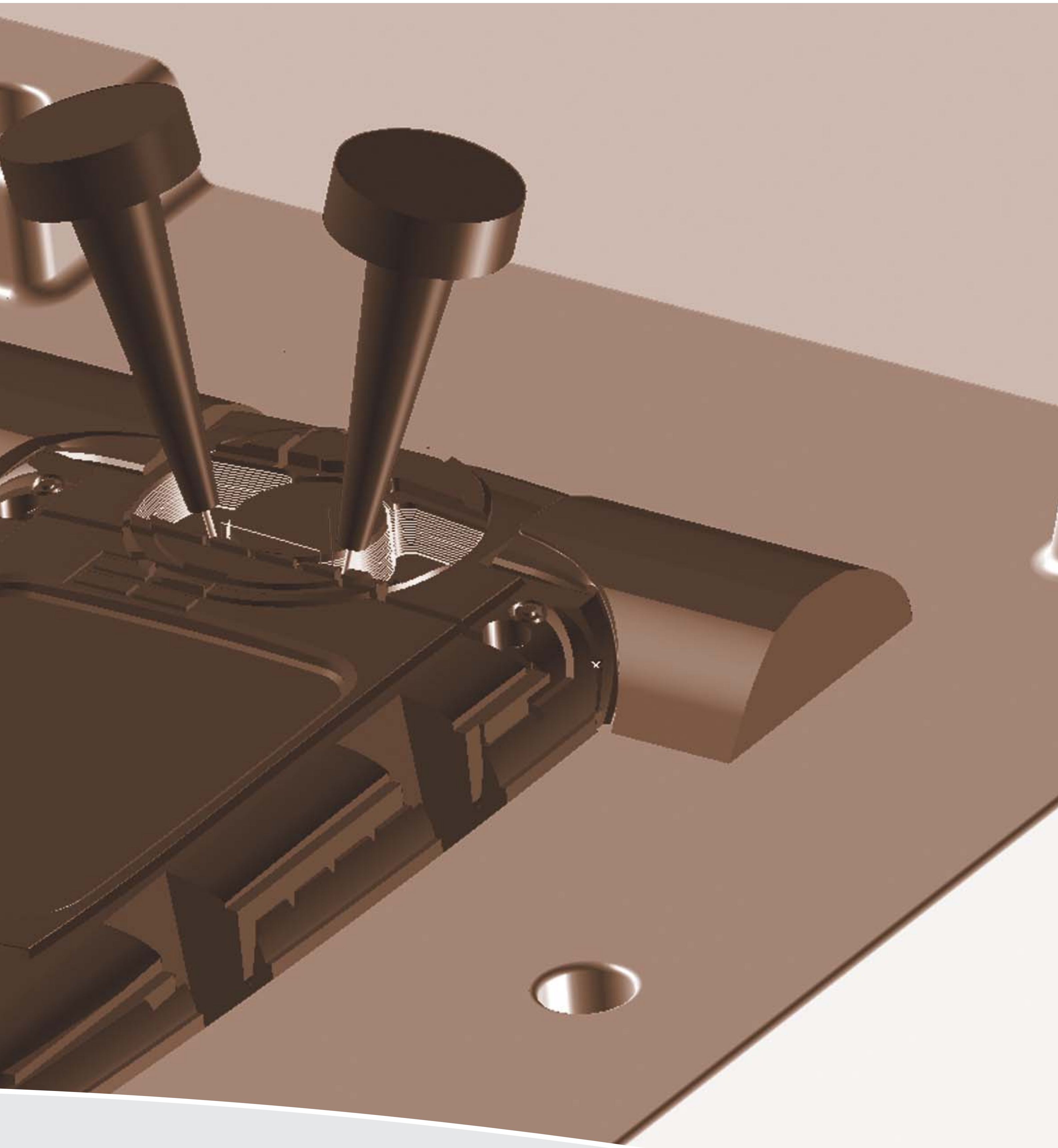
CAM in practice

Mold making with hyperMILL®

Project: Injection molds for mobile phone production

Customer: ShinYoung Precision Co. Ltd, Seoul, South Korea

ShinYoung Precision, a worldwide leader in mold making and manufacturing of injection mold products, produces plastic parts for mobile phones, pagers and other electronic devices. Customers include MOTOROLA and LG Electronics. To be more competitive, the efficiency of mold making needed to be improved. HyperMILL®, the CAM software from M+M group member OPEN MIND enabled a 30% time saving and initiated alternative production methods. Molds that had required several steps can now be milled by the company in one step using 5axis simultaneous machining. Additional finishing is no longer required due to the high surface quality achieved. The use of hyperMILL® enables ShinYoung Precision to fully exploit the modern 5axis machine tools' capabilities and thus justify the investment.



Notes

General remarks

Basis of the group financial statement

The consolidated financial statement of Mensch und Maschine Software AG, Wessling, Germany has been drawn up in compliance with International Financial Reporting Standards (IFRS) according to the specifications as defined in the currently valid guidelines of the International Accounting Standards Board (IASB). All International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC) which have been in effect at the closing date and accepted by the EU have been considered.

In addition to that, the regulations of Article 315a of the German Commercial Code and §161 of the German Stock Corporation Act have been considered.

The consolidated financial statements have been prepared in Euros. Unless otherwise specified, all amounts are stated in thousand euros (KEUR).

These consolidated financial statements were prepared for the 2006 fiscal year (January 1 to December 31).

In connection with drawing up the group financial statement according to the International Financial Reporting Standards (IFRS), no group financial statement according to the German accounting standards (HGB) was drawn up pursuant to Article 315a of the German Commercial Code.

Changes in accounting policies

The International Accounting Standards Board (IASB) has approved a number of changes to the existing International Financial Accounting Standards (IFRSs) and adopted several new IFRSs, which became effective as of January 1, 2006. M+M is applying the following IFRSs in the reporting period for the first time:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IAS 19	Amendment (2004) ‘Actuarial Gains and Losses, Group Plans and Disclosures’
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining Whether an Arrangement Contains a Lease

The first time application of this changes had no material impact on the M+M consolidated financial statements.

New accounting policies
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations, which were not yet effective in the 2006 financial year. These IFRSs can only be applied if they are endorsed by the EU, which is still pending in some cases.

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

These Standards and Interpretations have to be applied for annual periods beginning on or after January 1, 2006. These regulations have not been early adopted by the M+M group. The effect of the application of these standards can not be estimated exactly, but will not have material impact on the Group's financial statement 2007.

Valuation methods and accounting policies applied

Consolidated companies and closing date
In addition to the parent company, the consolidated financial statement comprises all directly and indirectly owned domestic and international subsidiaries, at which M+M SE holds directly or indirectly the majority of the voting rights or the control of the economic power, which are included in accordance with the principles of full consolidation.

In addition to the parent company, the companies listed opposite were fully consolidated in the group financial statement of December 31, 2006.

M+M group consolidated companies	
Mensch und Maschine Management AG, Wessling	100%
Mensch und Maschine Deutschland GmbH, Wessling	100%
Mensch und Maschine Akademie GmbH, Bad Boll, Germany	100%
Mensch und Maschine Software AG, Riehen (Basel), Switzerland	100%
Mensch und Maschine Software Ges.m.b.H., Salzburg, Austria	100%
Man and Machine S.a.r.l., Bagnolet (Paris), France	100%
Man and Machine Software s.r.l., Vimercate (Milan), Italy	100%
Man and Machine Software Sp.ZO.O., Lodz, Poland	100%
Man and Machine Ltd, Thame, UK	100%
Man and Machine AB, Sundbyberg (Stockholm), Sweden	100%
Man and Machine Benelux NV, Ternat (Brussels), Belgium	100%
yello! Digital production tools AG, Wiesbaden, Germany	82.34%
EUKLID Software GmbH, Wessling, Germany	100%
DATAflor Software Aktiengesellschaft, Goettingen, Germany and 100% shareholding: DATAflor EDV fuer die gruene Branche GmbH, Goettingen, Germany	61.50%
Elektro-CAE-Software GmbH (ECS), Donzdorf, Germany	60%
OPEN MIND Technologies AG, Unterföhring, Germany and 100% shareholdings: OPEN MIND Technologies USA Inc., Southfield/Michigan, USA OPEN MIND Technologies PTE Ltd., Singapore OPEN MIND Technologies Italia s.r.l., Rho (Mailand), Italy OPEN MIND Technologies France S.a.r.l., Le Bourget du Lac Cedex, France OPEN MIND Technologies UK Limited, Thame, UK OPEN MIND Technologies Japan Inc., Tokyo, Japan	100%

Acquired assets and assumed liabilities in fiscal year 2006			
Amount in KEUR	**Net carrying amount at the date of first time consolidation**	**Fair-value adjustment**	**Net carrying amount after the acquisition**
Cash and cash equivalents	451		451
Inventories	230		230
Other current assets	356		356
Property, plant and equipment	68		68
Investment properties	1,574		1,574
Other intangible assets	1	420	421
Goodwill	0		0
Deferred taxes	0	373	373
Financial Liabilities	-1,517		-1,517
Other current liabilities	-716		-716
Accruals	-37		-37
Net assets	**410**	**793**	**1,203**
Minority Interests			-212
Already owned shares			-426
Purchase Price			**565**
Acquired cash and cash equivalents			-451
Net cash outflow for the acquisition			**114**

Balance sheet closing date for the subsidiaries included in the group consolidated financial statement is December 31.

As of October 1, 2006 the shares at yello! Digital production tools AG have been increased to 82.34% and are included in the consolidated financial statements.

The fair-value adjustment reflects the differences between the previous net carrying amounts and the respective fair values in the M+M balance sheet at the date of acquisition. The purchase price allocation reflects all information with respect to revaluation amounts calculated as of the date of acquisition, but has not yet been completed. Therefore, changes may yet be made in the allocation of the purchase price to the individual assets.

Mensch und Maschine Systemhaus was renamed as Mensch und Maschine Deutschland GmbH and took over the German operating business of Mensch und Maschine Software SE.

Mensch und Maschine Management AG was set up and carries out all management and service functions within the M+M group.

DATAline Service und Support GmbH merged with DATAflor EDV fuer die gruene Branche GmbH as of January 1, 2006. DATAflor Vertriebs GmbH was dissolved by shareholders resolution as of June 15, 2006.

In the previous year M+M SE bought the minority interest of subsidiary Compass systems GmbH as of February 15, 2005 and merged it as of February 28, 2005. By March 31, 2005 all assets and liabilities of the merged Compass systems GmbH were sold. This unit, which is not sufficiently material to be presented as a discontinued operation, generated in the Year 2005 KEUR 571 of sales and KEUR 120 of operating income. The net asset as of February 28, 2005 amounted to KEUR -2,611.

The financial statements of all group companies were drawn up on the basis of common accounting principles. As far as there is an obligation to examine, they are audited by independent auditors and endorsed by an unqualified auditing opinion.

Principles of consolidation

The consolidated financial statements include the business of all majority-owned subsidiaries, of which MuM has control according to IAS 27.6, mainly because of a share ownership of more than 50 percent.

The capital consolidation is performed using the benchmark method, by offsetting the book values of the shares with the pro rata equity of the subsidiaries included in the group consolidated financial statement at the date of acquisition or as a first-time consolidation.

Business combinations are reported according to the purchase method. Pursuant to this method, capital consolidation takes place by offsetting the purchase price against the acquired subsidiaries' revalued prorated net assets at the time of the acquisition. Subsidiaries' identifiable assets, liabilities and contingent liabilities are measured at full fair value, regardless of the amount of the minority interest. Intangible assets are reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. In accordance with IFRS 3, no new restructuring provisions are recognized within the scope of the purchase price allocation. Acquisition costs not allocated to assets, liabilities, or contingent liabilities are capitalized as goodwill. Negative goodwill from first time consolidation is included in income.

Date of acquisition is the date at which M+M SE takes the effective control over the company. Normally, this is the time at which the majority of the voting rights is acquired.

The differences arising from the consolidation of capital, to the extent that they are assets, are indicated as goodwill under non-current assets. There were no negative differences in the M+M group.

Minority shares are valued at closing time with their share in shareholders equity respective earnings of the year of the particular subsidiary. For M+M, rule IAS 27.36 is applied saying that negative minority shares have to be settled with shareholders equity and that no minority shares debit or credit shall be applied to group income statement as long as no positive minority share results which, according to IAS 27.33, has to be shown separately within shareholders equity. There were no negative minority shares in the M+M group.

Receivables, reserves, liabilities, accruals and deferrals resulting from intra-group transactions are mutually offset. Differences from the consolidation of debt are treated with effect on earnings. Contingent liabilities were consolidated to the required extent. Interim profits and losses resulting from intra-group supply and service trading were likewise eliminated as were investment returns from companies included in the consolidation. Intra-group sales revenues as well as other intra-group earnings were off-set by the appropriate expenditures.

With regard to the consolidation measures affecting results, tax deferrals pursuant to IAS 12 were carried out to the extent that the deviation in tax expenditure would conceivably be balanced in future fiscal years. Deferred taxes were not regarded in cases of semi-permanent differences (goodwill). The total amount of deferred taxes from the individual and consolidated financial statements is included in the item income taxes in the statement of income.

Management judgments in the application of accounting policies

Management judgments are required in the application of accounting policies. In particular, this pertains to the following items:

- With regard to certain contracts a decision must be made as to whether they are to be treated as derivatives or as so-called own-use contracts, and be accounted for as executory contracts.

- Financial assets must be allocated to the categories ‘held to maturity investments’, ‘loans and receivables’, ‘financial assets available for sale’, and ‘financial assets at fair value through profit or loss’.

- With regard to provisions for pensions and similar liabilities, there are various options for the recognition of actuarial gains and losses.

- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If this is the case, the assets and any related liabilities must be reported and measured as ‘Assets held for sale’ or ‘Liabilities held for sale’, respectively.

The explanation of the accounting policies contains a description of the decisions taken by M+M with regard to these items.

Estimations and assumptions
Drawing up the group financial statement required estimations and assumptions which can impact the amounts of assets, liabilities and financial obligations at closing date as well as returns and expenses in the fiscal year under review. The actual amounts can differ from these estimations and assumptions.

Currency conversion
The annual financial statements of the group's international subsidiaries were converted into Euro in accordance with the principle of functional currency in compliance with IAS 21. This refers to the respective national currency for all companies since these international companies are financially, economically and organizationally independent with respect to their operations. Accordingly, equity was converted at the historical exchange rate, the other balance sheet items were converted at the exchange rate on closing date, and income and expenditures as well as year-end results were converted using a mean exchange rate for the year. In compliance with IAS 21, differences arising from currency conversion of both capital consolidation and transfer of the annual earnings to the balance sheet at the mean annual exchange rate were treated as having no effect on earnings and are included within equity. New acquired Goodwill is translated as an asset of the economically autonomous foreign entity at the exchange rate in effect on the balance-sheet date.

Structure of statement of income and balance sheet
In keeping with the international practice of consolidated financial statements, the report begins with the statement of income (profit and loss), itemized according to the cost-of-sales method. In accordance with IAS 1, the balance sheet is apportioned into current and non-current assets and into current and non-current liabilities. To improve the clarity in the profit and loss statement, the disinvestment profit and restructuring expenses are shown separately. To guarantee the comparability, the previous year was adapted accordingly.

Exchange rates

	Average		Year end	
	2006	2005	Dec 31, 2006	Dec 31, 2005
1 Swiss Franc	0.6342	0.6461	0.6222	0.6428
1 British pound	1.4668	1.4637	1.4908	1.4543
1 Polish zloty	0.2564	0.2486	0.2608	0.2591
1 Swedish Krona	0.1081	0.1075	0.1106	0.1064
1 US Dollar	0.7960	0.8443	0.7574	0.8451
1 Singapore Dollar	0.5011	0.5068	0.4936	0.5081
100 Japanese Yen	0.6845	0.7164	0.6361	0.7189

Accounting and valuation methods

Cash and cash equivalents
M+M shows credit balances at banks under cash and cash equivalents. Foreign currency credit balances are converted by exchange rate at closing date.

Property, plant and equipment
Property, plant and equipment is reported at cost of acquisition less regular depreciation. These assets are depreciated over the useful economic life of 3 to 10 years.

Low value items are fully written off in the year of purchase.

Investment property
Investment property is all real property held to earn rental income or for long-term capital appreciation rather than for use in production or for administrative purposes. This property is measured at depreciated cost. Transaction costs are also included in the initial measurement. Depreciable investment property is depreciated over 50 years using the straight-line method. Fair values of investment property are stated in the Notes under (6) and are determined using the gross rental method or are derived from the current market prices of comparable real estate. Impairment losses for investment properties are recognized according to the principles described for intangible assets. If the reason for an impairment loss recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the depreciated cost.

Other Intangible assets
Intangible assets are reported at cost of acquisition less regular depreciation. These assets are depreciated over the useful economic life of 3 to 10 years.

Intangible assets, acquired in the context of a business combination, are capitalized at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through various line items.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is not carried forward because its future recoverability cannot reasonably be regarded as assured.

Goodwill and impairment

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

According to IFRS 3 (business combinations) goodwill is not amortized, instead it is subjected to an impairment test, at least once every year.

In the context of the impairment test, the recoverable amount of the cash generating units is determined by the current value less sales costs or the value in use. The individual subsidiaries of M+M were defined as cash generating units. The current value reflects the best estimation of the amount, for which an independent third party would acquire the cash generating units as of balance-sheet date; Sale costs are taken off. The value in use is determined on the basis of DCF methods. To calculate this, cash flow projections are based on financial budgets approved by the Administrative Board covering a three-year period. This planning is based on experiences from the past as well as on expectations over the future market development.

The growth rate applied to cash flow projections for the three-year planning period is between 5% and 7.5% p.a. for gross margin and between 2.5% and 5% p.a. for expenses.

The discount rate is determined on the basis of market data and considers credit and market risks. For the cash generating units it amounts to 12.35%.

If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized in addition to this are taken into account by reducing the carrying amount of the other assets of the cash-generating unit on a prorated basis. If the reason for an impairment loss recognized in prior years has ceased to exist, a write-back is performed, whereby the increased carrying amount resulting from the write-back may not exceed the amortized cost. Impairment losses on goodwill are not reversed.

Other Investments

Financial assets include shareholdings in other companies. The reported shareholdings are exclusively shareholdings without substantial influence. Consequently, it is not necessary to value them pursuant to IAS 28 (Accounting for Investment in Associates). Pursuant to IAS 27, shares in companies that do not fall in the category group companies and associated companies, are to be valued pursuant to IAS 39 (Financial Instruments). All shareholdings are reported at cost of acquisition the first time they are recorded, corresponding to the fair value of the stated asset. This is the equivalent of cash or cash equivalents. The shareholdings reported within the M+M Group are financial assets available-for-sale pursuant to IAS 39, as none of the other categories under IAS 39 apply. As the financial assets do not have a listed market price on an active market and it is therefore impossible to reliably calculate a fair value, the subsequent valuation is also at cost of acquisition, whereby all shareholdings are checked for signs of depreciation (Impairment Test).

In general, the shareholdings are checked for depreciation by means of valuations which are taken as a basis when the shares in shareholdings are transferred. The transactions invoked for the purposes of valuation take place between third parties outside the Group. In addition, DCF methods and industry-specific multipliers are applied for the impairment testing. Actually twice the sustained annual gross margin is taken as the maximum book value of an investment not causing an impairment.

Inventory

The valuation of the inventory depends on the regulations of IAS 2. This position contains mainly finished goods which are capitalized at costs. If necessary, an inventory valuation adjustment is made due to a reduced usability. All recognizable risks are considered by appropriate adjustments.

Financial Instruments

Financial instruments entail contractual claims on financial assets. According to IAS 32, financial instruments also include primary instruments, such as trade accounts receivable and payable, investments and financial liabilities.

According to IAS 39, financial instruments are categorized as:

- extended loans and receivables
- financial assets at fair value through profit and loss
- available for sale
- held to maturity

Extended loans and receivables are stated at cost less accumulated depreciation and any impairment in value.

The valuation for Investments measured at fair value has changed. A new category has been created, which allows the valuation at fair value through profit and loss.

Investments classified as available-for-sale, are measured at fair value and accounted in consideration of fluctuations between the trading and the settlement day. Gains or losses on these investments are recognized in income.

Investments classified as held-to-maturity, are measured at cost less any impairment in value, and accounted in consideration of fluctuations between the trading and the settlement day.

The liquid assets, trade receivables and payables have such short terms that there is no significant discrepancy between their fair values and carrying amount. The book value of the liabilities complies approximately with the fair value. The fair value is ascertained by discounted cash flow analysis, which is based on current interests for similar loans.

Financial assets are derecognized when the contractual rights to cash flows from the assets expire or the entity transfers the financial asset. The latter applies when substantially all the risks and rewards of ownership of the asset are transferred, or the entity no longer has control of the asset.

Credit risk arises from the possibility of asset impairment occurring because counterparties cannot meet their obligations in transactions involving financial instruments. Since M+M do not conclude master netting arrangements with our customers, the total of the amounts recognized in assets represent the maximum exposure to credit risk.

Currency risk is the potential decline in value of financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are dominated in a currency other than the companies' local currencies. Such risks may be naturally hedged due to receivables and payables in the same currency.

Interest rate risks apply mainly to receivables and payables with maturities of over one year. Items with such long maturities are not of material significance on the operating side. Investment and financial obligations are not hedged due to fixed interest rates.

Derivative financial instruments are not used in the M+M group.

Shares in affiliated companies
Participations where M+M SE exercises a relevant influence, usually due to a investment holding between 20 and 50 per cent, are accounted at equity according to IAS 28. With the equity method no assets and liabilities nor proceeds and expenditures are consolidated, but the historical acquisition costs are adjusted annually by the amount of equity change, which corresponds to the capital share of M+M SE. According to IFRS 3, the linear goodwill amortization has ceased.

During the first at equity incorporation of a participation a difference from the initial consolidation is treated according to the principles of a full consolidation.

C-Plan AG, Muri near Bern, Switzerland, in which the M+M SE held a 20 per cent investment, was included at equity in the consolidated financial statements 2005. C-Plan has been sold as of June 1, 2005. As of December 31, 2006 no investment is included at equity in the consolidated financial statements.

Deferred tax assets and liabilities
For the deferral of deferred taxes, M+M uses the balance-oriented temporary concept according to IAS 12. Therefore each balance and valuation discrepancy between IFRS and the tax balance is included in the deferral, if the difference dissolves in the lapse of time and has an effect on the taxable base. Additionally, deferred tax assets are capitalized on tax loss carry forwards according to IAS 12 if they can offset with probable future fiscal profits. This assessment is reviewed annually.

Borrowing costs
In accordance with IAS 23, borrowing costs are exclusively charged to expenditure.

Equity costs
According to IAS 32 the costs for the capital increase are offset with the additional paid in capital.

Accruals
Pursuant to IAS 37, accruals are to be reported at the amount resulting from the best estimate of the financial outflow required to meet current obligations as at the balance sheet date. The value stated for other accruals takes into account all identifiable risks based on past experience and where the scope and maturity is uncertain.

Pension accruals
The pension accruals essentially exist at the parent company and refer to a defined benefit plan for the Managing Directors. The pension commitment contains a retirement pay, a widow's pension as well as a disablement pension. In the case of pension the payments are made monthly in advance. Pursuant to the Projected Unit Credit Method according to IAS 19 the pension accruals are measured at the present value of the defined benefit liability. The discount rate used is between 4.00 and 4.25 per cent, the estimated return on plan asset is 4.25 to 4.50 per cent and the future changes in remuneration are 1.50 to 2.00 per cent.

The provision is reduced by the amount of the plan assets. The service cost, i.e. the increase in the obligation related to the service by the employees during the reporting period, are disclosed in staff costs, and the interest cost and expected return on plan assets are reported in the financial result.

With the change to IAS 19 'Employee Benefits,' the IASB also allows for the accounting of actuarial gains and losses in equity, without an effect on the income statement. M+M has opted not to use this method for the time being. In addition, further information on pension obligations will become necessary in the future. The first time application of the new version of IAS 19 does not have an impact on the consolidated financial statements of M+M.

Other assets and liabilities
For all identifiable risks of other assets, appropriate allowances are taken.

Liabilities are valued at their repayment value.

Foreign currency receivables and liabilities
In the individual financial statements, receivables and liabilities are translated at the rate on the balance sheet date. Profits and losses from the translation of foreign currency receivables and liabilities are reported in the Statement of Income under other income and expenses. As the income and expenses are not substantial, there are no notes relating to this position.

Principles of revenue recognition
In the M+M group, recognition of revenue occurs at that time when the risk passes to the customer. For service revenues the percentage-of-completion method is applied if the prerequisites of IAS 18 in connection with IAS 11 are met. The work in progress is determined on the basis of the already furnished project hours in comparison to the entire project volume.

Business combinations
IFRS 3 defines company acquisitions if one enterprise, the acquirer, obtaining control over the net assets and operations of another enterprise, the acquiree, whereby control presents the opportunity to govern the financial and business policies of a company so as to obtain benefits from its activities. In the reporting period no acquisitions occurred. As of October 1, 2006 the shares at yello! Digital production tools AG has been increased to 82.34% and is included in the consolidated financial statements.

Development of stock option rights

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	
Day of issuance	**Jun 1, 99**	**Jun 2, 00**	**Jun 5, 01**	**Jun 3, 02**	**Jun 2, 03**	**Jul 12, 05**	**May 31, 06**	**Total**
Total number granted	181,800	176,600	226,296	249,268	241,108	315,250	249,426	1,639,748
Strike price (EUR)	15.00	12.47	6.85	6.21	2.45	3.59	5.64	
Vesting period	6/8 years	6/8 years	6/8 years	6/8 years	6/8 years	6/8 years	6/8 years	
Outstanding options as of January 1, 2006	58,400	104,200	134,300	181,156	121,732	307,460	0	907,248
In the reporting period								
granted options	0	0	0	0	0	0	249,426	249,426
forfeited options	0	0	1,400	4,408	3,700	13,700	0	23,208
exercised options	0	0	0	0	4,500	0	0	4,500
expired options	16,400	53,200	0	0	0	0	0	69,600
Outstanding options as of Dec 31, 2006	42,000	51,000	132,900	176,748	113,532	293,760	249,426	1,059,366
Exercisable options as of Dec 31, 2006	42,000	51,000	132,900	176,748	19,700	0	0	422,348
Capital increase in KEUR for:								
Exercisable options only	630	636	910	1,098	48	0	0	3,322
All options outstanding	630	636	910	1,098	278	1.055	1.407	6,014

Stock option plans
Mensch und Maschine are offering its Managing Directors and other employees stock options in the form of an option plan relaunched each year. The subscription price per share is the average closing price of the M+M share on the Frankfurt stock exchange on the first 30 trading days after the annual accounts press conference. The subscription right can not be exercised before the waiting period has expired. The waiting period amounts to 2 or 4 years after the stock option offer. The subscription right continues to exist four years after the waiting period has expired. The subscription right can only be exercised in certain exercise periods. It can only be exercised if the stock market price of the M+M share is at least 15% above the strike price in the last 10 consecutive trading days before the respective exercise period.

In 2006, 249,426 new options have been issued and 4,500 options have been converted. In the period 69,600 options have expired and 23,208 have forfeited. As of December 31, 2006, 1,059,366 options are outstanding.

Parameters for Black-Scholes-Merton model	Tranche 5		Tranche 6		Tranche 7	
	2 years	4 years	2 years	4 years	2 Years	4 years
Share price on the day of measurement in EUR	2.43	2.43	4.65	4.65	4.59	4.59
Life of the option on the grant date	6 years	8 years	6 years	8 years	6 years	8 years
Expected life of the option	2 years	4 years	2 years	4 years	3 years	4 years
Exercise price on the expected exercise date in EUR	2.45	2.45	3.59	3.59	5.64	5.64
Expected dividend yield	0.00%	0.00%	4.30%	4.30%	5.45%	5.17%
Risk-free interest rate for the life of the option	2.21%	2.70%	2.23%	2.75%	3.52%	3.61%
Expected volatility of the share price	74.32%	74.32%	45.29%	45.29%	37.58%	37.58%
Expected fluctuation of option holders during the option's life	17.06%	22.38%	7.71%	15.00%	5.00%	14.57%

The options are converted by means of a capital increase from the contingent capital, so the conversion price leads to an injection of capital on the one hand and a corresponding increase in the number of shares on the other. In the last two lines of the table on page 46, the respective injection of capital for each issue year and overall is listed. The upper line only shows options exercisable as at December 31, 2006, and the lower line reports all outstanding options.

If all 422,348 exercisable options were converted, this would lead to an injection of capital amounting to KEUR 3,322. In terms of the number of shares as at December 31, 2006 amounting to 12,611,532 and the equity as at December 31, 2006 of KEUR 14,912, this would correspond to 3.35% growth in the number of shares and a 22.28% increase in the equity. In terms of the total number of 1,059,366 outstanding options and an associated injection of capital amounting to KEUR 6,014, the following values are derived: number of shares +8.40% and capital growth +40.32%.

According to IFRS 2 (Share-based Payments) share-based remuneration for employees granted after November 7, 2002 that had not vested on or before January 1, 2005, has to be accounted for as personnel expenditure for accounting years beginning on or after January 1, 2005. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. Therefore equity-settled transactions occur, when employees receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

Since it is not possible to measure job performance at fair value, the fair value of the granted shares are used. Thus the costs of this remuneration system are measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The total value of the granted stock options under IFRS amounts to KEUR 949 (PY: 773).

For the purpose of stock option valuation a modified Black-Scholes-Merton formula was applied, based on the parameters and expected volatilities shown in the table above:

The expected lives of the options are based, as far as existent, on historical data regarding the exercise periods. In case no adequate information was available at the grant date, the expected lives of the options were estimated based on the management estimate that the options are exercised at the earliest date. The reason for the early exercise is related to tax privileges for option holders since due to present tax regulations in Germany the difference between the exercise price and the present share price has to be taxed as pecuniary advantage whereas stock price gains are tax free after one year.

The target of an increase of the average share price of at least 15% within the last ten consecutive trading days prior to the respective exercise period, was not considered in the valuation since the achievement of the target was expected by the management based on the forecasts at the respective grant date of the options.

The future volatility for the expected lives of the options was estimated based on historical volatilities in consideration of the future expected market trend. Basically IFRS 2. B25 requires to consider the annualized historical volatility of the expected lives of the options.

In case of Mensch und Maschine, the comparability of historical periods and future periods is, in accordance with IFRS 2. B25 (d), not given, due to the fact, that since the company's initial public offering in 1999 because of the development of the ‘German New Market’ and the subsequent restructuring of the company, the past stock price deviations are not representative for the future development. Considering this, the future expected volatilities are based on historical 12 months volatilities.

Related Parties

The CTO Werner Schwenkert is also Managing Director of Follow Me GmbH. Transactions with this company are carried out on an arm's length basis.
Business with this company was not material from the viewpoint of M+M SE.

The M+M SE was not a party to any transaction of an unusual nature or structure that was material to us or to companies or persons closely associated with us, nor does it intend to be party to such transactions in the future.

M+M's CEO and Chairman of the Board Adi Drotleff subscribed convertible loans amounting to KEUR 824, and got therefore interests of KEUR 47 (PY: 47) in 2006. Furthermore he granted M+M an interest free shareholder loan amounting to KEUR 271 (PY: 1,178) as of December 31, 2006. A shareholder loan amounting to KEUR 1,021 contributed to capital increase.

KTB Technologie Beteiligungsgesellschaft mbH & Co KG which holds shares of 3.86% as of December 31, 2006, granted M+M loans amounting to KEUR 2,475 (PY: 2,500) and therefore received interest of KEUR 165 (PY: 36).

Notes on the statement of income

1. Revenues

This position contains trade sales amounting to KEUR 169,421 (PY: 146,017) and sales of business services amounting to KEUR 917 (PY: 1,194).

2. Cost of revenues

This position contains predominantly purchases of standard software products. Raw materials and external services play a very subordinate role.

3. Selling and marketing expenses

This position contains personnel expenses amounting to KEUR 12,895 (PY: 12,696), other operating expenses amounting to KEUR 12,922 (PY: 11,956), and depreciation amounting to KEUR 537 (PY: 528).

4. General and administrative expenses

This position contains personnel expenses amounting to KEUR 3,922 (PY: 3,951), other operating expenses amounting to KEUR 4,857 (PY: 4,670), and depreciation amounting to KEUR 206 (PY: 164).

5. Research and development expenses

This position contains personnel expenses amounting to KEUR 4,808 (PY: 4,987), other operating expenses amounting to KEUR 1,030 (PY: 1,161), and depreciation amounting to KEUR 149 (PY: 183).

6. Other operating income

Other operating income contains the returns from private use of cars and telephones in the amount of KEUR 563 (PY: 567), rents received amounting to KEUR 92 (PY: 88) and other income amounting to KEUR 780 (PY: 785).

7. Disinvestment profit

This position corresponds to the gain on disposal of the RoCAD technology. In the previous year this position contained the gain on disposal of the merged daughter Compass systems GmbH in the amount of KEUR 6,156 and the shares of C-Plan AG in the amount of KEUR 2,137. These units are not sufficiently material to be presented as a discontinued operation.

8. Restructuring expenses

This position mainly implies restructuring costs amounting to KEUR 302 (PY: 907) as well as consulting and other costs related to restructuring, amounting to KEUR 75 (PY: 788).

9. Impairment of goodwill

In the previous year this position contained the impairment of goodwill from Mensch und Maschine Akademie GmbH amounting to KEUR 350, Euklid GmbH with KEUR 623 and Man and Machine AB, Schweden with KEUR 1,438.

10. Financial result

KEUR	2006	2005
Interest income	56	72
Interest expense	-1,740	-2,103
Income from other investments and participations	37	95
Foreign currency exchange gains / losses	35	93
Other financial expenses	-559	-556
Financial result	**-2,171**	**-2,399**

The other financial expenditures essentially contain bank charges amounting to KEUR 258 (PY: 255) and costs of factoring amounting to KEUR 247 (PY: 245).

11.Taxes on income

This item encompasses tax expenses amounting to KEUR 2,195 (PY: 1,917), a relief amounting to KEUR 330 (PY: burden amounting to KEUR 2,786) from further development and revaluation of deferred tax assets, as well as a surplus of KEUR 13 (PY: reduction of KEUR 67) from deferred tax liabilities.

In total there are realizable tax loss carry forwards amounting to KEUR 28,133 (PY: 28,978). This creates deferred tax assets of KEUR 10,151 (PY: 10,508). The realization of the tax loss carry forward has been proved by planning forecasts and flexible tax models of optimization. Hereby only those tax loss carry forwards are capitalized, which can presumably be used within the following five years, resulting in deferred tax assets with an amount of KEUR 4,117 (PY: 3,318). This means only 40.6% (PY: 31.6%) of the total realizable tax loss carry forwards are capitalized.

At the moment there are no time restrictions for the utilization of the tax assets in the M+M group.

The temporary differences include deferred tax assets amounting to KEUR 623 (PY: 800) resulting from different valuations of intangible assets, as well as deferred tax liabilities amounting to KEUR 15 (PY: 82). The changes have been booked as tax expenditure or proceeds.

The transition between the expected taxes and the actual tax proceeds are explained by the following reconciliation:

Tax reconciliation

Amounts in KEUR	2006	2005
Result before income tax	**5,083**	**5,180**
Legal tax rate	37%	37%
Expected tax load	**-1,881**	**-1,917**
Tax rate variances		
Foreign tax rate differential	-62	-207
Deviation of the taxable base from		
Non deductable expenses	-167	-156
Tax free income from investments	0	929
Amortization of goodwill	0	-892
Taxable depreciation of intangible assets	246	351
Valuation of deferred tax assets		
Non execution of deferred tax assets	0	-2,861
Other	**-14**	**117**
Actual tax load	**-1,878**	**-4,636**
Effective tax rate in percent	**36.95%**	**89.50%**

12. Calculation of shares outstanding and earnings per share

In accordance with IAS 33, a weighted average was calculated for shares outstanding. The diluted number of shares does not only include the original subscribed capital shares, but also all option rights from the employee option program which were exercisable at the statement closing date, but which had not yet been exercised.

For the purpose of calculating diluted earnings per share, the profit and loss attributable to ordinary equity holders and the weighted average number of shares outstanding has to be adjusted for the effects of all diluting potential ordinary shares. In accordance with IAS 33.33, net income is adjusted for the after tax effect of the interest of KEUR 78 (PY: 78) recognized for the convertible loan.

	2006	2005
Net result KEUR attributable to M+M shareholders	3,028	445
Weighted number of shares	12,497,358	12,052,928
Non diluted earnings per share EUR	0.2423	0.0369
Diluted net loss KEUR	3,106	523
Diluted shares	13,267,055	12,830,779
Diluted earnings per share EUR	0.2341	0.0408

Fixed assets register 2005

	Acquisition costs				Accumulated depreciation				Net book value	
	Jan 1, 05	Addition	Disposal	Dec 31, 05	Jan 1, 05	Addition	Disposal	Dec 31, 05	Jan 1, 05	Dec 31, 05
I. Tangible assets	**7,430**	**656**	**-543**	**7,543**	**4,269**	**629**	**-405**	**4,493**	**3,161**	**3,050**
II. Investment Properties	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
III. Other intangible assets	**3,179**	**100**	**-586**	**2,693**	**2,328**	**246**	**-265**	**2,309**	**851**	**384**
IV. Goodwill	**29,749**	**5,021**	**-6,151**	**28,619**	**8,860**	**2,411**	**0**	**11,271**	**20,889**	**17,348**
V. Financial assets	**5,997**	**0**	**-1,833**	**4,164**	**1,895**	**0**	**0**	**1,895**	**4,102**	**2,269**
1. Financial assets	4,118	0	0	4,118	1,895	0	0	1,895	2,223	2,223
2. Affiliated companies	1,754	0	-1,754	0	0	0	0	0	1,754	0
3. Other	125	0	-79	46	0	0	0	0	125	46
(all amounts in KEUR)	**46,355**	**5,777**	**-9,113**	**43,019**	**17,352**	**3,286**	**-670**	**19,968**	**29,003**	**23,051**

Notes on the balance sheet

Assets

Current assets

13. Trade accounts receivable

Trade accounts receivable comprised in the group's individual companies include reasonable adjustments and generally have a remaining term of less than one year. The receivables are reduced by a specific allowance amounting to KEUR 725 (PY: 769). Due to factoring receivables amounting to KEUR 3,197 (PY: 3,583) are off balance.

14. Inventories

This position predominantly contains purchased goods amounting to KEUR 4,857 (PY: 3,799), software licences amounting to KEUR 903 (PY: 1,080) and work in process amounting to KEUR 260 (PY: 226). The inventory is reduced by a specific allowance amounting to KEUR 263 (PY: 240).

15. Other current assets

This position primarily comprises tax credits, loans and creditor receivables from pending reimbursements.

Non current assets

The development of the non current assets during fiscal years 2005 and 2006 is indicated in the fixed assets register.

Fixed assets register 2006

Acquisition costs					Accumulated depriciation				Net book value	
Jan 1, 06	Consolidat-ion effect	Addition	Disposal	Dec 31, 06	Jan 1, 6	Addition	Disposal	Dec 31, 06	Jan 1, 06	Dec 31, 06
7,543	**101**	**570**	**0**	**8,214**	**4,493**	**836**	**0**	**5,329**	**3,050**	**2,885**
0	**1,574**	**0**	**0**	**1,574**	**0**	**4**	**0**	**4**	**0**	**1,570**
2,693	**421**	**200**	**-32**	**3,282**	**2,309**	**52**	**0**	**2,361**	**384**	**921**
28,619	**0**	**0**	**0**	**28,619**	**11,271**	**0**	**0**	**11,271**	**17,348**	**17,348**
4,164	**-401**	**2**	**0**	**3,765**	**1,895**	**0**	**0**	**1,895**	**2,269**	**1,870**
4,118	-427	0	0	3,691	1,895	0	0	1,895	2,223	1,796
0	0	0	0	0	0	0	0	0	0	0
46	26	2	0	74	0	0	0	0	46	74
43,019	**1,695**	**772**	**-32**	**45,454**	**19,968**	**892**	**0**	**20,860**	**23,051**	**24,594**

16. Investment property

As of December 31, 2006, the fair value of investment property amounted to KEUR 1,579 (PY: 0). The fair value of investment property is derived from the current market prices of comparable real estate or determined using the gross rental method. Rental income generated in the reporting period amounted to KEUR 140 (PY: 0). Direct operating expenses totalled KEUR 18 (PY: 0).

17. Goodwill

In the previous year this position contained the impairment of goodwill from Mensch und Maschine Akademie GmbH amounting to KEUR 350, Euklid GmbH with KEUR 623 and Man and Machine AB, Schweden with KEUR 1,438.

Also in the previous year M+M SE bought the minority interest of subsidiary Compass systems GmbH as of February 15, 2005 and merged with M+M SE as of February 28, 2005. By March 31, 2005 all assets and liabilities of the merged subsidiary Compass systems GmbH were sold.

Individual goodwill development during the year under review was as follows:

Goodwill development

Amounts in KEUR	Dec 31, 2004	Impairment	Dec 31, 2005	Impairment	Dec 31, 2006
OPEN MIND	7,463		7,463		7,463
M+M UK	2,982		2,982		2,982
M+M Sweden	2,876	-1,438	1,438		1,438
M+M Switzerland	1,265		1,265		1,265
DATAflor	1,135		1,135		1,135
M+M Italy	1,116		1,116		1,116
ECS	711		711		711
M+M Poland	474		474		474
M+M Akademie	700	-350	350		350
M+M France	333		333		333
M+M Austria	81		81		81
Euklid	623	-623	0		0
Compass	1,130	-1,130	0		0
Total	**20,889**	**-3,541**	**17,348**	**0**	**17,348**

18. Other investments

Other investments mainly include strategic shareholdings. As of December 31, 2006 the following investments existed:

Investments

Amounts in KEUR	Dec 31, 2006 in %	Dec 31, 2006 Book value	Dec 31, 2005 in %	Dec 31, 2005 Book value
yello! AG, Wiesbaden	--	--	29.3	427
CTB GmbH & Co KG, Buchholz	19.9	200	19.9	200
SOFiSTiK AG, Munich	14.3	896	14.3	896
Cyco BV, Netherlands	7.4	700	7.4	700

As of October 1, 2006 the shares at yello! Digital production tools AG has been increased to 82.34% and is included in the consolidated financial statements.

M+M is performing current evaluations of the financial assets. For this purposes DCF models as well as industry-specific multipliers, which are multiplied by the shareholding's sustained gross margin are used to verify possible impairments. Actually twice the sustained annual gross margin is taken as the maximum book value of an investment not causing an impairment.

The maximum loss risk is the amount of the respective net book value plus loans given to shareholdings if applicable, amounting to KEUR 94 (PY: 859) as of Dec 31, 2006.

Liabilities

Current liabilities

19. Short term debt and current portion of long term debt

This position almost exclusively contains bank loans at principal banks in Germany and abroad in the context of credit line. They are mainly secured by assignments of a claim, pledging of shares at technology subsidiaries as well as endorsements of members of the Administrative Board or the management of individual subsidiaries.

20. Accrued expenses

Accruals are calculated by taking all identifiable risks into account and always represent the expected repayment amount. They mainly include personnel and restructuring accruals. The development of the accruals in the reporting period is shown in the table of accrual development.

Table of accrual development				
Amounts in KEUR	Dec 31, 2005	Disposal	Addition	Dec 31, 2006
Personnel accruals	1,294	-1,294	1,307	1,307
Outstanding bills	1,215	-1,215	1,069	1,069
Other	1,126	-1,126	940	940
Total current accruals	**3,635**	**-3,635**	**3,316**	**3,316**
Personnel accruals	176	0	2	178
Total non current accruals	**176**	**0**	**2**	**178**
Total accruals	**3,811**	**-3,635**	**3,318**	**3,494**

Table of accrual development
In the column disposal, there are no major reversings.

21. Other current liabilities
This position contains an interest free shareholder loan of KEUR 271 from CEO, Chairman of the Board and principal shareholder Adi Drotleff, as well as loans of KEUR 2,475 from the KTB Technologie Beteiligungsgesellschaft mbH & Co KG which holds shares of 3.86 per cent as of December 31, 2005. Furthermore this position includes debts from VAT and tax on wages and salaries, outstanding social security costs and deferred income.

Non current liabilities

22. Long term debt, less current portion
This position contains the long term part of bank loans.

23. Convertible loan
As of July 15, 2004, 348,599 unregistered convertible loans have been issued with a nominal amount of EUR 1.00. The loans were issued at EUR 5.75 each. The convertible loan has a running time of maximum four years and interest is paid annually with 5.75% of the issuing amount from July 15, 2004 (included) till July 14, 2008 if not paid back or converted. The interest is paid annually due on July 15 of the years 2005 to 2008. The loans are paid back at the latest July 14, 2008 if not paid back or converted before. Each loan creditor has the irrevocable right during the conversion window (one month after July 15, 2005, 2006, 2007 and last from June 1 to 30, 2008) to convert each loan held in the nominal amount of EUR 1.00 in 1 (one) ordinary share with a par value of EUR 1.00 of M+M SE. Conversion rights were not exercised in 2005.

M+M's CEO and principal shareholder Adi Drotleff signed convertible loans amounting to KEUR 824.

The market value of the liability component and the equity component was determined as of the date of issuing of the loan. The market value of the liability component, which is contained in non current liabilities, was determined on the basis of a market interest rate of 9.0% for an appropriate straight loan. The remaining value of KEUR 211 (less transaction costs of KEUR 7), which represents the equity component, has been transferred to the capital reserve.

Consequently, the liability component will be measured at cost up to the conversion or maturity of the loan. In the fiscal year fictitious interest expenditures of KEUR of 48 (PY: 0) has been allocated to the loan capital. However the equity component measured at the date of issuing of the loan remains unchanged.

24. Pension accruals

The pension accruals essentially exist at the parent company and refer to a defined benefit plan for the Managing Directors. The pension commitment contains a retirement pay, a widow's pension as well as a disability pension. The pension accruals are determined according to actuarial principles of the projected unit credit method in accordance with IAS 19.

The pension accruals at the balance sheet date amount to KEUR 463 (PY: 607), of which an amount of KEUR 463 (PY: 607) represents the determined cash value of the performance-oriented obligation not financed via funding. The cash value determined as at the balance sheet date of the performance-oriented obligations financed via funds amounts to KEUR 2,251 (PY: 1,777). This figure also corresponds to the fair value of the plan assets as at the balance sheet date. The balance of actuarial profits and losses not yet included as at the balance sheet date amounts to non-reported profit of KEUR 210 (PY: 231). The time of service expenditure to be calculated retrospectively and not yet reported in the balance sheet amounts to KEUR 0 as in the previous year.

The Statement of Income includes income from plan assets amounting to KEUR 83 (PY: 72), interest expenses amounting to KEUR 104 (PY: 102) and
current time of service expenditure amounting to KEUR 55 (PY: 104). The stated expenses and income are included in the general and administrative expenses. In the financial year, pension has been paid in the amount of KEUR 39 (PY: 39).

The status of the defined benefit obligations is as follows:

KEUR	2006	2005
Benefit obligation at start of year	2,384	1,986
Interest cost	104	102
Service cost	55	104
Benefits paid	-39	-39
Net actuarial gain	210	231
Benefit obligation at year end	2,714	2,384
Plan assets at start of year	1,777	1,631
Employer contributions	-39	-39
Actual return on plan assets	83	72
Net actuarial gain	430	113
Plan assets at year end	2,251	1,777
Net recognized liability	**463**	**607**

25. Share capital

The subscribed capital of M+M SE as of Dec 31, 2006 comprised 12,611,532 (PY: 12,105,782) shares, with a calculated stake of EUR 1.00 per share. In 2006, 4,500 options and 1,200 convertible loans have been converted. Also the subscribed capital increased through the issuance of 500,000 new shares.

26. Capital reserve

KEUR	2006	2005
Capital Reserve as of Jan 1	3,367	3,125
Capital increase	1,882	110
Convertible loan	6	0
Share based payments	227	132
Capital Reserve as of Dec 31	5,482	3,367

The shareholder meeting at May 19, 2003 has agreed the conditional increase of share capital which serves to grant the members of the Board of Directors and other employees stock options. In 2006, 4,500 options have been converted with a premium amounting to KEUR 7 and 1,200 convertible loans with a premium amounting to KEUR 6 have been allocated to the capital reserve.

Furthermore the capital reserve includes the premiums from the 2006 capital increase amounting to KEUR 1,875.

Notes on the cash flow statement

27. Other information on operating activities

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to total cash and cash equivalents on the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities.

Flows of funds from the acquisition and sale of consolidated companies are included in cash flows from investing activities. Effects of foreign exchange rate changes are stated separately.

Among other things, cash flows from operating activities include:
- cash flows from interest income of KEUR 1,740 (PY: 2,103) and cash flows used for interest expenses of KEUR 56 (PY: 72)
- KEUR 2,195 (PY: 1,917) in taxes on income paid (less income tax refunds)
- cash flows from investments (dividends) amounting to KEUR 23 (PY: 29)

The other expenses / income not using cash are mainly the change of the deferred taxes amounting to KEUR -690 (PY: 2,720) and the change of deferred revenues of KEUR 240 (PY: -12).

Cash flows from financing activities include KEUR 1,211 (PY: 0) which was paid out to M+M shareholders.

Cash and cash equivalents of KEUR 452 (PY: 0) stemming from acquisitions are offset against capital expenditure on financial assets. In the previous year divested cash and cash equivalents of KEUR 92 are included in proceeds from divestitures.

KEUR	2006	2005
Purchase Price	565	5,021
Sales Price	0	16,935
Cash outflow for purchase	565	3,821
Cash inflow from sales	0	12,277
Invested cash	452	0
Divested cash	0	92

The acquired or disposed assets and liabilities are shown below:

KEUR	2006 invested	2005 divested
Fixed Assets	1,643	353
Current Assets	1,039	687
Accruals	38	248
Liabilities	716	298

There are no restrictions on the disposal of cash and cash equivalents.

Other supplementary information

Other financial obligations and contingent liabilities

The other financial obligations are mainly the result from long term rental and operating lease contracts for the group as a whole. The minimum financial obligation for non discounted rental and lease payments is KEUR 10,669 (PY: 10,373). In the current financial year, rent and leasing payments are contained amounting to KEUR 3,031 (PY: 3,203).

The due dates of payments are as following:

	in KEUR
2007	2,874
2008	2,244
2009	1,451
2010	1,110
2011	975
Following years	2,015
Total	**10,669**

Material leasing contracts mainly apply to office buildings at several locations, SAP software and company cars.

Additionally, there is a contingent liability as of April 1, 2007, from the OPEN MIND AG acquisition towards some of the old shareholders, which will be payable if the M+M share price should never achieve or exceed a level of EUR 15.25 per share for a period of at least four weeks until April 1, 2007. In this case an additional purchase price payment in cash amounting to the difference of the average M+M share price to EUR 15.25 in the 30 days prior to April 1, 2007, multiplied by 192,716 will be due.

As of the reporting date of March 28, 2007, 27 out of 30 days are past. The average share price was EUR 5.05. For this average price a payback of KEUR 1,966 arises (15.25 - 5.05 = 10.20 x 192,716 = 1,965,703).

Employees

The group's average number of employees (excluding temporary workers and trainees) during the fiscal year was 300 (PY: 307). The personnel expenses amounted to KEUR 21,625 (PY: 21,635).

Administrative Board

Due to the Conversion of Mensch und Maschine Software AG into Mensch und Maschine Software SE the term in office for the Advisory Board ended with the registration of the conversion in the Commercial Register, which took place on December 7, 2006.

According to article 23 and 24 of the SE implementing law in connection with article 10, para 1, of the articles of association of Mensch und Maschine Software SE provides that the Administrative Board is made up of three members. The general meeting of Mensch und Maschine Software SE on May 30, 2006 elected the following persons to the Administrative Board for the duration according to the articles of association.

Adi Drotleff, Munich, (Chairman)
Norbert Kopp, Hannover,
Managing Director of KTB mbH & Co. KG, (Vice Chairman)
Thomas Becker, Neuss, Tax consultant

Until December 7, 2006 the Advisory Board was comprised of the following gentlemen:

Guenther Speiser, Tamm,
Bankbetriebswirt, (Chairman)
Norbert Kopp, Hannover,
Managing Director of KTB mbH & Co. KG, (Vice Chairman)
Thomas Becker, Neuss, Tax consultant

'Vorstand' / Managing Directors

With the registration of Mensch und Maschine Software SE in the Commercial Register on Dec 7, 2006 each 'Vorstand' of the former 'AG' became Managing Director ('Geschäftsführender Direktor').
The following gentlemen were appointed 'Vorstand' or Managing Director during fiscal year 2006:

Adi Drotleff, Diplom-Informatiker,
Munich (CEO)
Michael Endres, Diplom-Informatiker (FH),
Fuerstenfeldbruck (Marketing)
Jens Jansen, Diplom-Ingenieur, MBA
Munich (CIO)
Peter Schuetzenberger, Kaufmann,
Landsberg (CFO)
Werner Schwenkert, Diplom-Kaufmann,
Munich (CTO)

The company is legally represented by two Managing Directors or by one Managing Director together with a person authorized to sign. The Administrative Board delegated Mr. Adi Drotleff the sole representation authorization.

Remuneration of Managing Directors and Administrative Board

Remuneration for the Managing Directors amounted to KEUR 732 (PY 782), of which an amount of KEUR 120 (PY: 153) was variable. Additionally the Directors received non cash remuneration (e.g. company cars, pension commitments, life insurances) amounting to KEUR 164 (PY: 189).

The Directors were granted share options during the period of KEUR 28 (PY: 54). The modified Black-Scholes-Merton-Model was applied in assessing the fair value of the options.

The pension obligation for the Managing Directors amounts to KEUR 1,216 (PY: 1,255) as of December 31, 2006.

Remuneration for the Advisory / Administrative Board totalled KEUR 39 (PY: 38). This was split up into KEUR 20 for the Chairman Mr. Speiser and KEUR 19 (PY: 20) for the members Mr. Becker KEUR 10 (PY: 10) and for Mr. Kopp KEUR 10 (PY: 8).

Directors' shareholdings and options

On Dec 31, 2006, the Managing Directors owned 6,314,052 shares (PY: 6,094,996) and 307,253 options (PY: 307,253) in Mensch und Maschine Software SE.
Stock ownership of the members of the Administrative Board as of Dec 31, 2006, was 5,000 shares (PY: 5,000), the option ownership of the members of the Administrative Board was 0 (PY: 0).

Remuneration of Managing Directors in FY 2006

in KEUR	fix	variable	non cash	Options
Adi Drotleff	156	24	68	0
Michael Endres	108	24	27	7
Peter Schuetzenberger	108	24	26	7
Jens Jansen	108	24	30	7
Werner Schwenkert	132	24	13	7

Stock and option ownership of Directors and Board members as per Dec 31, 2006, is shown in the following table:

Directors' holdings Dec 31, 2006		
Directors	Shares	Options
Adi Drotleff	5,412,508	172,053
Michael Endres	24,000	39,600
Jens Jansen	23,544	33,200
Peter Schuetzenberger	30,000	39,600
Werner Schwenkert	824,000	22,800
Administrative Board		
Norbert Kopp	5,000	0
Thomas Becker	0	0

Other Advisory Board memberships of Administrative Board members
On December 31, 2006, Mr. Becker also served as a member of the Advisory Board for DATAflor AG, Goettingen.

On December 31, 2006, Mr. Drotleff also served as chairman of the Advisory Board of DATAflor AG, Goettingen, and was a member of the Advisory Board for SOFiSTiK AG, Munich.

On December 31, 2006, Mr. Kopp also served as a member of the Advisory Board of KIH Kunersdorf Immobilien Holding AG, Hannover, of Foris AG, Bonn, of WAS World Wide Analytical Systems AG, Uedem, of HNE Technologie AG, Augsburg, as well as ComHouse AG, Wuerzburg.

Declaration in accordance to §161 AktG (German Corporate Governance Codex)
The company has published for 2006 the declaration required in accordance with §161 AktG and made it accessible to its shareholders via the internet (www.mum.de).

Accountant fee volume

The required disclosure of the accountant fee volume is as follows:

KEUR	2006	2005
Audit	305	348
Tax consulting	45	78
Other	8	0
Total	**358**	**426**

The expenses in 2005 include an amount of KEUR 78 belonging to the prior year.

Release date for publishing

The consolidated financial statement of Mensch und Maschine Software SE was released for publishing on March 29, 2007. Publishing was approved by the Administrative Board. The date of publishing was March 30, 2007.

Events after balance sheet date

There are no reportable subsequent events after the balance sheet date.

Restatement for the prior year Consolidated Financial Statements

The Group Financial Statement as of December 2005 as well as the Management Report was taken for a sampling audit by the Deutsche Pruefstelle für Rechnungslegung e.V. (DPR). M+M agreed the findings and restated the prior year Consolidated Financial Statements.

The restatement has to be made by adjusting the prior year consolidated financial statements in accordance with IAS 8.41. According to that a substantial error should be corrected in the first financial statements after their discovery. The adjustment is done retrospectively by correcting the prior year figures. The adjustments as well as their effect on the consolidated financial statements are represented below:

a) The fair value of the stock options for the year 2005 was understated by KEUR 42, furthermore the notes were completed.

b) The goodwill from Mensch und Maschine Akademie GmbH, Euklid GmbH and Man and Machine AB, Schweden were impaired amounting to KEUR 2,111.

c) The deferred tax assets regarding the tax loss carry forward as of December 31, 2005 were adjusted by KEUR 2,861.

d) The profit from the disinvestments Compass and C-plan was stated too low amounting to KEUR 1,833. The purchase price for this Disinvestments was offset with liabilities of KEUR 1,913, the contra position is the change in net working capital, furthermore the notes were completed.

Restated consolidated income statement for the year ended December 31, 2005

Amounts in KEUR	Note	2005 adjusted	Adjust-ment	2005 stated
Revenues		**147,211**		**147,211**
Cost of revenues		-104,963		-104,963
Gross margin		**42,248**		**42,248**
Selling & marketing expenses		-25,180	-20	-25,160
General & administrative expenses	a	-8,785	-14	-8,771
Research & development expenses		-6,331	-8	-6,323
Other operating income		1,440		1,440
Operating result EBITA before non-recurring effects		**3,392**	**-42**	**3,434**
Disinvestment profit		8,293		8,293
Restructuring expenses		-1,695		-1,695
Impairment of goodwill	b	-2,411	-2,111	-300
Operating result EBIT		**7,579**	**-2,153**	**-9,732**
Financial result		-2,399		-2,399
Result before taxes		**5,180**	**-2,153**	**7,333**
Taxes on income	c	-4,636	-2,861	-1,775
Net result		**544**	**-5,014**	**5,558**
thereof attributable to M+M AG shareholders		445		5,459
thereof attributable to minority shareholders		99		99
Net income per share (basic)		0.04		0.45
Net Income per share (diluted)		0.04		0.43
Weighted average shares outstanding in million (basic)		12.053		12.053
Weighted average shares outstanding in million (diluted)		12.831		12.831

Restated Balance sheet for the year ended December 31, 2005

Amounts in KEUR	Note	2005 adjusted	Adjust-ment	2005 stated
Cash and cash equivalents		998		998
Trade accounts receivable		23,467		23,467
Accounts receivable due from related parties		859		859
Inventories		5,105		5,105
Prepaid expenses and other current assets		4,010		4,010
Total current assets		**34,439**		**34,439**
Property, plant and equipment		3,050		3,050
Investment properties		0		0
Intangible assets		384		384
Goodwill	b	17,348	-2,111	19,459
Other Investments		2,269		2,269
Deferred taxes	c	3,941	-2,861	6,802
Total non current assets		**26,992**	**-4,972**	**31,964**
Total assets		**61,431**	**-4,972**	**66,403**
Short term debt and current portion of long term debt		14,176		14,176
Trade accounts payable		22,733		22,733
Advance payments received		39		39
Accrued expenses		3,635		3,635
Deferred revenues		104		104
Income tax payable		1,712		1,712
Other current liabilities		5,213		5,213
Total current liabilities		**47,612**		**47,612**
Long term debt, less current portion		1,185		1,185
Convertible loan		1,841		1,841
Deferred taxes		16		16
Pension accruals		607		607
Other non current liabilities		176		176
Total non current liabilities		**3,825**		**3,825**
Share capital		12,106		12,106
Capital reserve	a	3,367	42	3,325
Other reserves		221		221
Retained earnings / accumulated deficit		-6,298	-5,014	-1,284
Minority interest		625		625
Currency conversion		-27		-27
Total shareholders' equity		**9,994**	**-4,972**	**14,966**
Total liabilities and shareholders'		**61,431**	**-4,972**	**66,403**

Restated Statement of cash flows for the year ended December 31, 2005

Amounts in KEUR	Note	2005 adjusted	Adjust-ment	2005 stated
Net result		**544**	**-5,014**	**5,558**
Depreciation and amortization	b	3,286	2,111	1,175
Other non cash income / expenses	c	2,731	2,861	-130
Increase/decrease in provisions and accruals		505		505
Losses/gains on the disposal of fixed assets	d	-8,716	-1,833	-6,883
Change in net working capital	a,d	4,222	3,788	434
Net cash provided by operating activities		**2,572**	**1,913**	**659**
Sale of subsidiaries	d	8,456	-1,913	10,369
Purchase of subsidiaries, net of cash		0		0
Purchase of other fixed assets		-756		-756
Sale of other fixed assets		459		459
Net cash used in (provided by) investing activities		**8,159**	**-1,913**	**10,072**
Proceeds from issuance of share capital		186		186
Dividendenauszahlungen		0		0
Proceeds from short or long term borrowings		-11,078		-11,078
Net cash provided by (used in) financing activities		**-10,892**		**-10,892**
Net effect of currency translation in cash and cash equivalents		41		41
Net increase / decrease in cash and cash equivalents		**-120**		**-120**
Cash and cash equivalents at beginning of period		**1,118**		**1,118**
Cash and cash equivalents at end of period		**998**		**998**

Independent Auditor´s Report

'We have audited the consolidated financial statements prepared by Mensch und Maschine Software SE, Wessling, comprising the income statement, balance sheet, cash flow statement, statement of recognized income and expense and the notes to the consolidated financial statements, together with the group management report, for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the e.u., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 hgb and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer (Institute of Public Auditors in Germany) (idw) and additionally observed the International Standards on Auditing (isa). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRS as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315a Abs. 1 hgb and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.'

Stuttgart, March 28, 2007

A W T
AUDIT WIRTSCHAFTS - TREUHAND AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Hahn
Wirtschaftsprüfer

Huber
Wirtschaftsprüfer

Report from the Administrative Board of Mensch und Maschine Software SE, Wessling, according to section 47 para 3, SE implementing law (SE-IL) in conjunction with section 171 para 2, AktG (German Companies act)

The annual shareholders' meeting of Mensch und Maschine Software AG decided on May 30, 2006, to convert the company to Mensch und Maschine Software SE. Upon registration of the conversion to the Handelsregister entry of Mensch und Maschine Software AG at December 12, 2006, the conversion was effective. The Administrative Board (Verwaltungsrat), which was elected by the shareholders of Mensch und Maschine Software AG on May 30, 2006, reports to the shareholders' meeting according to section 47 para 3 SE implementing law (SE-IL) in conjunction with section 171 para 2, AktG (German Companies act) as follows:

Until the conversion became effective, the Advisory Board fulfilled all its obligations as incumbent, pursuant to the corresponding statutes and by-laws, and including the ongoing advice and supervision of the company management. The Advisory Board was involved in all decisions of principal importance for the company.

The strategic direction of the M+M group was closely aligned between the Management and Advisory Board.

The Management Board informed the Advisory Board, orally or in writing, in a regular, timely and extensive manner about all essential matters concerning the short term planning, the actual course of business as well as the financial and earnings situation.

Based on detailed management reports, all business cases significant and essential for the M+M group have been discussed in depth, also concerning the development of the individual subsidiaries. Discrepancies in the course of business from the plan have been discussed intensively, as well as the conversion of the company to an SE.

The Advisory Board received reports about the development of the risk management system; existing risks and their provision were explained by the management.

The Advisory Board was informed in detail about events of material importance also in between the regular meetings. The Chairman of the Advisory Board had regular personal contact to the Management Board outside the setting of the official meetings.

During fiscal year 2006, four Advisory Board meetings took place on March 9, March 20, May 30 and September 29, plus two Administrative Board meetings on May 30 and December 20. In the Administrative Board's constituting meeting dated May 30, 2006, Mr. Adi Drotleff was elected Chairman of the Administrative Board, and Mr. Norbert Kopp was elected deputy Chairman.

Advisory and Management Board explicitly commited to the recommendations for responsible corporate governance fixed in the German Corporate Governance Codex in April 2006 in accordance with §161 AktG. This commitment is permanently accessible by the shareholders on the company's website. Due to the size of the Board, there were no additional committees. An efficiency test for the activities of the Advisory or Administrative Board was non explicitly conducted, because improvement processes are constantly discussed and translated into action.

The Administrative Board received a declaration of independence from the auditors according to chapter 7.2.1 of the German Corporate Governance Codex.

The annual report of Mensch und Maschine Software SE as of December 31, 2006 including the management report, as well as the group annual report as of December 31, 2006 including the management report for the group was set up by the Managing Directors and audited by AWT Audit Wirtschafts-Treuhand AG Wirtschaftspruefungsgesellschaft (auditing firm), Stuttgart, and endorsed with an unqualified audit opinion.

In a samping audit according to § 342 b Abs. 2 Satz 3 Nr. 3 HGB, Deutsche Prüfstelle für Rechnungslegung e.V. (DPR) stated that the approved annual report for fiscal year 2005 was not completely according to the accounting principles. Mensch und Maschine Software SE agreed to the findings by DPR and restated the annual report 2005 accordingly. The restated report was subject to a supplementary audit.

The Managing Directors' set up and the auditing reports from the auditing firm were available to all members of the Administrative Board.

The Administrative Board is judging the information disclosed in the Management Report as neutral for a potential takeover. In the Administrative Board's opinion, a takeover of the company is neither obstructed nor facilitated.

The auditor took part in the annual fiscal year report meetings on March 1 and 29, 2007, and reported upon all significant results of the audit. The Administrative Board reviewed the annual report and group annual report, the management and group management report and the management's suggestion for the use of the net income for the year, and finally agrees to the annual report and group annual report, raising no objections after its own review.
The Administrative Board has approved the annual report and group annual report, and agreed the Managing Directors' suggestion for the use of the net income for the year.

The Administrative Board would like to thank all employees for their engagement in fiscal year 2006.

Wessling, March 2007
The Administrative Board
Adi Drotleff
Chairman

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Events	
April 27, 2007	Quarterly report Q1/2007
May 24, 2007	Annual shareholders' meeting
July 30, 2007	Half year report 2007
October 26, 2007	Quarterly report Q3/2007
March 17, 2008	Annual report 2007
March 17, 2008	Analysts' conference

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CAD/CAM in practice: Mold and die making

Project: Design and Manufacturing of injection molds for ski boots

Customer: TYROLIA TECHNOLOGY, Schwechat, Austria
HTM Sport- und Freizeitgeräte AG Group

Many ski professionals in the alpine world cup as well as sports amateurs are relying on skis, bindings and boots from the Austrian brands HEAD and TYROLIA. TYROLIA TECHNOLOGY could reduce process time in mold and die making by about 20% as a result of an integrated process chain, in which a new 5Axis precision tool and hyperMILL CAM software from OPEN MIND, an M+M Group member, are among the most important elements. First, the smooth integration into the existing CAD environment streamlines production planning, e.g. the design of such a ski boot injection mold. Second, hyperMILL's innovative 5Axis technology optimizes machine control sequences, accelerating the milling process and saving valuable machining runtime.

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